

# APPROPRIATION COMMITTEE

## TOWN OF LEXINGTON



### ***REPORT TO THE MARCH 2013 ANNUAL TOWN MEETING***

Released March 25, 2013

#### **Appropriation Committee Members**

**Glenn Parker, *Chair* • John Bartenstein, *Vice Chair/Secretary***

**Robert N. Addelson (*ex-officio; non-voting*) • Robert Cohen • Mollie Garberg**

**Alan Levine • Susan McLeish • Eric Michelson • Richard Neumeier • Jonina Schonfeld**



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# Summary of Warrant Article Recommendations

*Abbreviations:* GF = General Fund; EF = Enterprise Fund; RF = Revolving Fund;

CPA = Community Preservation Act Fund; BAN = Bond Anticipation Note;

DSSF = Debt Service Stabilization Fund

*An entry of IP for "Indefinitely Postpone" in the right-hand column merely signifies our expectation.*

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2014 Operating Budget	<i>See Report</i>	<i>See Motion</i>	Approve (9-0)
5	Appropriate FY2014 Enterprise Funds Budget	\$7,888,530 \$8,800,750 \$1,785,840	Water EF Wastewater EF Recreation EF	Approve (9-0)
6	Appropriate for Senior Service Program	\$20,000	GF	Approve (9-0)
7	Establish and Continue Departmental Revolving Funds	<i>See Report</i>	RF	Approve (9-0)
8	Appropriate the FY2014 Community Preservation Committee Operating Budget and CPA Projects	\$3,048,377 \$186,750 \$228,250 \$875 \$3,464,252	CPA Rec RF GF Debt GF Cash	Approve (9-0) <i>except 8(c),(d),(e)</i>
9	Appropriate for Recreation Capital Projects	\$261,750 \$150,000 \$228,250 \$640,000	Recreation EF CPA GF Debt	Approve (9-0) <i>See Article 8(h)</i>
10	Appropriate for Municipal Capital Projects and Equipment	\$10,248,238	<i>See Report</i>	Approve (9-0) <i>except 10(h)</i>
11	Appropriate for Water System Improvements	\$200,000 \$700,000 \$900,000	Water EF (Debt) Water Retained Earnings	Approve (9-0)
12	Appropriate for Wastewater System Improvements	\$1,100,000 \$200,000 \$1,300,000	Wastewater EF (Debt) Water Retained Earnings	Approve (9-0)
13	Appropriate for School Capital Projects and Equipment	\$1,524,031	<i>See Report</i>	Approve (9-0)
14	Appropriate for Public Facilities Capital Projects	\$1,539,454 \$748,940 \$100,000 \$5,060 \$2,393,454	Free Cash GF Debt CPA Prior Year Balances	Approve (9-0)

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2013 ATM

<b>Article</b>	<b>Title</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
<b>15</b>	<b>Appropriate Bonds and Notes Premiums</b>	<b>\$4,168,632</b>	<b>Bond Premiums</b>	<b>Approve (9-0)</b>
<b>16</b>	<b>Accept MGL Chapter 32, Section 101: Supplemental Annual Allowance</b>	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>
<b>17</b>	<b>Accept MGL Chapter 32, Section 12(2)(d paragraph 11): Increasing Minimum Monthly Allowance</b>	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>
<b>18</b>	<b>Appropriate to Post Employment Insurance Liability Fund</b>	<b>\$775,000</b>	<b>GF</b>	<b>Approve (9-0)</b>
<b>19</b>	<b>Rescind Prior Borrowing Authority</b>	<b>None</b>	<b>N/A</b>	<b>Pending</b>
<b>20</b>	<b>Establish and Appropriate To and From Specified Stabilization Funds</b>	<div> <div>\$950,000</div> <div>\$1,234,000</div> <div>\$67,760</div> <div><b>\$2,184,000</b></div> </div>	<b>Free Cash Tax Levy TDM Payments</b>	<b>Approve (9-0)</b>
<b>21</b>	<b>Appropriate to Stabilization Fund</b>	<b>None</b>	<b>N/A</b>	<b>IP</b>
<b>22</b>	<b>Appropriate from Debt Service Stabilization Fund</b>	<b>\$124,057</b>	<b>DSSF</b>	<b>Approve (9-0)</b>
<b>23</b>	<b>Appropriate for Prior Years' Unpaid Bills</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Pending</b>
<b>24</b>	<b>Amend FY2013 Operating and Enterprise Budgets</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Pending</b>
<b>25</b>	<b>Appropriate for Authorized Capital Improvements</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Pending</b>
<b>26</b>	<b>Establish Qualifications for Tax Deferrals and Exemptions</b>	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>
<b>29</b>	<b>Amend General Bylaws – Contracts and Deeds (Solar Energy Purchasing)</b>	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>

## Preface

This Preface describes the structure and stylistic conventions used in this report. It is followed by an Introduction discussing changes in the Town's financial status since the most recent Annual Town Meeting in March 2012, along with issues pertinent to the Town's general financial situation. The main body of this report contains article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance. The report references several appendices at the end of this document that provide a deeper explanation of particular financial issues.

The discussion for each article presents the consensus view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. In the case where one or more Committee members are strongly opposed to the majority position, we summarize the opposing perspective. Each Article discussion concludes with the most recent vote of the Committee prior to publication. This is summarized by the number of members in favor, followed by the number of members opposed, and lastly (when applicable) the number of members abstaining, e.g. "(6-2-1)" indicates six members in favor, two opposed, and one abstaining. For convenience, Committee votes are also summarized on the preceding pages.

This report does not replicate information readily available to Town Meeting members elsewhere. Key documents that inform our analysis and provide a more thorough picture of the Town finances are:

- *FY2014 Recommended Budget & Financing Plan*, dated March 1, 2013, commonly known as the "Brown Book", which documents the complete municipal budget of the Town of Lexington. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D). [http://www.lexingtonma.gov/FY14\\_Brown\\_Book.pdf](http://www.lexingtonma.gov/FY14_Brown_Book.pdf)
- *School Committee Fiscal Year 2014 School Committee Recommended Budget* (the "Gray Book"), dated February 12, 2013, which details the budget plans for the Lexington Public School System. <http://lexingtonps.schoolwires.net/Page/2682>
- *TMMMA Warrant Information Report* (March 2013), published by the Town Meeting Members Association. <http://www.lexingtonmma.org/uploads/Main/WarrantInfoReport2012>
- *Capital Expenditures Committee (CEC) Report to the 2013 Special Town Meeting*.
- *Community Preservation Committee (CPC) Report to the 2013 Annual Town Meeting*.

### **Acknowledgements**

The content of this report, except where otherwise noted, was researched, written and edited by members of the Committee with support from town staff. Our Committee has the pleasure and the privilege of working with Town Manager, Carl Valente; Assistant Town Manager for Finance, Rob Addelson; our Budget Officer, Theo Kalivas; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Superintendent of Schools, Dr. Paul Ash; the Assistant Superintendent for Finance and Operations, Mary Ellen Dunn; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report.

## Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Board of Selectmen, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's advice and recommendations regarding all appropriations of Town funds that are anticipated in the Town Warrant, and other municipal matters that may come before Town Meeting. This report is published and distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. The Committee also makes presentations during Town Meeting, including recommendations on appropriations and other matters for which the Committee's formal position was pending at the time of publication.

The Committee has already published its report to the March 2013 Special Town Meeting, which recommended approval of the Board of Selectmen's offer to purchase 10 acres of land and two buildings offered by The Trustees of the Supreme Council of the Ancient Accepted Scottish Rite of Free Masonry at 33 Marrett Road. The Committee was unanimously in support of this request, and we are delighted that the Town's offer has now been accepted. Town Meeting's strong endorsement of the purchase represents a clear mandate to develop a community center along with other Town services in that location.

### **Developments Since Adoption of the FY2013 Budget**

The unallocated funds available within the FY2013 budget were put to use at the November 2012 Special Town Meeting. Road improvements associated with the new Estabrook School received an appropriation of \$1,500,000 (Article 5, 2012 STM). The Retirement Fund was supplemented with \$1,000,000 in response to a significant update of the Town's pension funding schedule by the Retirement Board (Article 2, 2012 STM). Town Meeting appropriated \$1,600,000 into the *Debt Service/Capital Projects/Building Renewal S.F.* (Article 3, 2012 STM) which will be used to mitigate the increase in debt service associated with the new Estabrook School construction combined with the Bridge and Bowman school renovations.

Against the recommendation of this Committee, Town Meeting did not approve an additional \$500,000 for the Post Employment Insurance Liability (OPEB) Fund (Article 4, 2012 STM), but \$500,000 had already been appropriated into the Fund at the 2012 Annual Town Meeting (Article 18, 2012 ATM).

Up to \$2,800,000 in increased construction costs for the new Estabrook School were authorized as part of the Town's excluded debt for this project (Article 6, 2012 STM).

Weather-related expenses have had a small but noticeable impact on the Town budget, requiring an additional appropriation for cleanup from Hurricane Sandy, and we anticipate larger than average snow and ice expenses for FY2013.

Construction of the new Estabrook School proceeds ahead of schedule and the School Committee has stated that the building should be ready for occupancy shortly after the beginning of 2014.

Town Meeting's approval of a Citizen's Article (Article 17, 2012 ATM) requesting an appropriation of municipal funds to reduce the cost of school bus transportation in FY2013 was followed by a campaign to encourage greater use of school buses by students. The resulting increase in ridership has been gratifying, and the Committee is pleased that the School budget has been adjusted so that the annual single-rider fee can be maintained at \$300 without the need for a municipal subsidy.

The \$561,518 appropriated for Phase 3 of the Muzzey Senior Center Upgrades (Article 8(c), 2012 ATM) will not be spent now that the Town has reached an agreement to purchase the property at 33 Marrett Road, where it is anticipated that the existing Senior Center will be relocated.

A study funded under the CPA (Article 8(d), 2012 ATM) examined suggested upgrades to the Cary Memorial Building and has recommended spending roughly \$8,000,000 on renovations to complete a major

overhaul of the facility. Funding for design and engineering for this project will be considered under Article 8(c).

The Board of Selectmen formed the Ad Hoc Townwide Facilities Master Planning Committee to perform a comprehensive long-range analysis of the needs and priorities for the Town's various facilities. The report of this committee will be published soon, and the Committee is hopeful that it will offer critical insight and practical options regarding the Town's capital planning.

The Committee has made no Reserve Fund transfers so far during FY2013, however the Town's snow and ice expenses for FY2013 may require a Reserve Fund transfer.

### **The FY2014 Budget**

The Town Manager has proposed a balanced, level service budget containing some strategic program improvements while adjusting to a significant increase in school enrollment. The budget does not require an operating override.

Total revenue is projected to increase by \$11,300,000 or 6.9%, a relatively large annual increase that is largely the result of an increase in non-recurring funds that will be allocated largely to cash capital and reserves. Total property tax revenue is projected to grow by 4%, and the average residential tax bill is projected to increase by 2.8%. As seen here, the growth of revenue usually exceeds the growth of tax bills due to "new growth" from commercial and residential development which expands the tax base independently of the 2.5% annual increase allowed by Proposition 2½.

The budget includes \$1,600,000 in property tax relief for FY2014, and \$2,184,000 set aside for future property tax relief and/or future capital building projects in the Capital Projects/Debt Service Reserve/Building Renewal Stabilization Fund.

Approximately \$2,400,000 in unallocated funds that was initially set aside for possible appropriation at a Special Town Meeting in the fall of 2013 to fund the construction of additional high school classrooms was instead used to finance the purchase of the property at 33 Marrett Road. If the high school project proceeds in the fall, it will probably require debt funding.

As always, the Town faces a challenge when crafting a budget in the absence of a firm commitment on the amount of State funding to expect, primarily in the form of aid under Chapter 70 (schools) and Chapter 90 (roads). This year, the situation is particularly volatile. The Governor has proposed major changes to the State's tax revenue system and to the formulas used to apportion State aid. As presented, these changes would greatly increase the Town's Chapter 70 aid, however the Governor's budget must be reconciled with budget plans offered by the legislature, where it will most certainly be modified. So, it is very difficult to predict the final outcome at this time. In addition, the federal government has triggered a sweeping series of budget cuts under a system of sequestration that will reduce federal aid and grants to the State and Town. Due to this uncertainty in the State and federal budgets, \$750,000 has been set aside for potential reductions in State and federal aid.

A rapid increase in enrollment within the Lexington Public School system has put a serious burden on the School department. The Superintendent has requested funding for new staff to meet the legal requirements and programmatic needs of the population. For the coming fiscal year, this funding did not require a deviation from the Town's revenue allocation model. The Committee expects that the need to provide suitable classroom space for a growing school population and the associated staff will have a significant impact on future budgets.

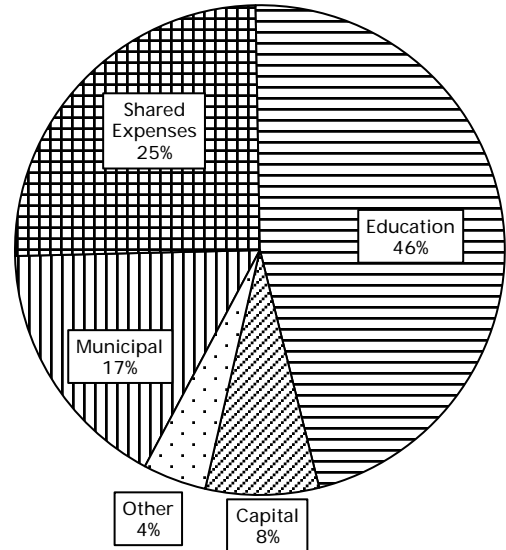
Finally, this budget makes significant investments in capital improvements to the Town's buildings and infrastructure. The Committee agrees that this is a worthwhile use of funds while the Town is not under pressure to meet its basic budget needs.



## Warrant Article Analysis and Recommendations

Article 4: Appropriate FY2014 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
	<i>See Below</i>	<i>See motion</i>	Approve (9-0)

Pro- gram	Description		Amount
1000	Education		<b>\$82,788,229</b>
2000	Shared Expenses		<b>\$44,799,110</b>
3000	<i>Public Works</i>	\$8,216,796	
4000	<i>Public Safety</i>	\$11,650,583	
5000	<i>Culture &amp; Recreation</i>	\$2,081,015	
6000	<i>Human Services</i>	\$1,179,918	
7000	<i>Community Devel.</i>	\$1,671,318	
8000	<i>General Government</i>	\$5,253,205	
	Total Municipal		<b>\$30,052,835</b>
	Capital		<b>\$13,360,748</b>
	Other		<b>\$7,474,719</b>



The operating budget consists of Education (1000), Shared Expenses (2000), and Municipal (3000-8000) programs. Major components of each program are discussed below.

Program 1100: Lexington Public Schools	Funds Requested	Funding Source
	<b>\$81,313,963</b>	<i>See motion</i>

The School Committee has voted to recommend a FY2014 appropriation of \$81,313,963 for the Lexington Public Schools. This request represents an increase of \$4,685,607 or 6.11% above the FY2013 appropriation. The requested appropriation would implement a level service budget with a few exceptions for program improvements, primarily the addition of 12.7 full-time equivalent (FTE) staff to address major program needs. Here we briefly summarize a few aspects of the requested budget. More comprehensive and authoritative information on the request may be found in the *FY2014 School Committee Recommended Budget*.

The primary drivers underlying the increase in the request above the FY2013 appropriation are: (1) salary increases based on current negotiated contracts; (2) staffing increases (10.6 FTEs) in the regular education program due to enrollment increases; (3) staffing increases (16.8 FTEs) in special education attributable to overall increased enrollment and to additional in-district capacity that will serve students who would otherwise require more expensive out-of-district placements; and (4) staffing increases (12.7 FTEs) and other costs in response to significant program needs.

### Funding Sources

While the General Fund supports a high percentage of the school budget, other sources of revenue also support school operations. Some of these sources must be appropriated by Town Meeting, others go di-

rectly to the School Department without the need for appropriation. A brief discussion of some of these revenue sources is given below.

- Federal grants – For FY2014, the School Department projects that it will receive \$1,900,000 in federal grants, the same amount that was received in FY2013. However, because of the uncertainties engendered by the sequestration of funds in the federal budget, the recommended FY2014 Town budget includes \$750,000 set aside as a resource to be available for appropriation later in case of unexpected reductions at the federal and state levels. Federal grant funds are not subject to appropriation by Town Meeting and are not included in the \$81,313,963 request.
- State grants – For FY2014, the School Department projects that the total amount that will be received in state grant revenue will be the same as in FY2013, namely \$1,725,698. The grants include those for METCO, School Health, Academic Support, Full-Day Kindergarten, and Special Education Program Improvement. These funds are not subject to appropriation by Town Meeting.
- Circuit breaker reimbursements come from the Commonwealth when the cost of special education services for an individual student, whether in or out of district, exceeds four times the statewide foundation budget. During the last five years, the School Department began to carefully evaluate in-district special education costs and to identify costs for which reimbursements could be sought. This process was a major factor in the increase in the total number of students for whom the reimbursement was claimed between FY2008 (70) and FY2012 (110).

During the same period, reimbursement rates have varied between 40% and 72%. The projected reimbursement rate used for budgeting purposes was 60% in FY2013 while the actual reimbursement rate was 70%. For FY2014, a rate of 70% is assumed for budget purposes. Given this assumed rate and a base of 106 students, the total reimbursement for FY2014 is estimated to be \$2,629,751. The comparable estimate for FY2013 was \$2,318,438.

Because of this increase in the projected reimbursement and the shift of students from out-of-district placements to in-district programs, the amount in the budget request for support of out-of district special education costs is \$5,267,812 which is 5.75% lower than the corresponding FY2013 amount. Circuit breaker reimbursement funds are not subject to appropriation by Town Meeting, and are not included in the budget request under this Article.

- The FY2014 school budget request assumes \$250,000 presently in the Avalon Bay Student Enrollment Mitigation Stabilization Fund will be transferred to the School Department by appropriation by Town Meeting. After this transfer, the Fund will have a \$47,000 balance.
- In FY2014 the School Department is planning to use a \$250,000 credit from the LABBB program in partial payment of Lexington's LABBB bills. Lexington, Arlington, Burlington, Bedford, and Belmont comprise the LABBB collaborative. LABBB provides educational and support services for over 250 special needs students from over 60 districts. Several years ago, the LABBB program had an uncommitted balance that was allocated to the participating towns. In FY2015, Lexington's LABB credit will be more than \$100,000. The LABBB credit is not subject to appropriation by Town Meeting.
- In FY2014, the component of Chapter 70 aid (a major part of state aid) specifically attributable to kindergarten costs is expected to increase following the Lexington Public Schools elimination of fees for full-day kindergarten in September 2013. Chapter 70 kindergarten aid is calculated on the basis of the program in the previous year. Therefore, in FY2014, Chapter 70 aid will include full credit for each kindergarten student (instead of half credit) for the first time. However, given the uncertainties in the state budget, and in the non-kindergarten components of Lexington's Chapter 70 aid, only the total amount to be received in state aid was used in setting the baseline municipal/school revenue split. For the FY2014 budget, the overall amount of state aid is projected to be the same as it was for FY2013.

#### **FY2014 status of programs for which parental fees were eliminated in FY2013**

In FY2013, the School Department eliminated fees for full-day kindergarten. To do so, it used a one-time appropriation of \$79,024 from the Town, a State kindergarten grant of \$230,000, and school operating

funds. In FY2014, the School Department will continue the program, and, for budgeting purposes, projects that \$205,000 will be received through the State kindergarten grant.

As in FY2013, the cost of the elementary instrumental music program is fully supported by this operating budget.

### **School Bus Transportation Subsidy**

The budget request includes \$320,000 to continue the subsidy approved for FY2013 under Article 18 of the 2012 Town Meeting that allows bus transportation to be offered for \$300/student for the school year to students who do not qualify for free bus transportation services. The budget request also includes a subsidy of total value approximately \$150,000 intended to reduce the cost for students willing to sign up to regularly travel to Estabrook School via school bus transportation. This would be the second and final year of that specific subsidy intended to reduce traffic during the construction of the new building.

### **Staffing**

The total number of full-time equivalent staff will increase from 916.64 to 963.56 under the requested budget. This is a 5.1% increase. There are multiple factors underlying the increase. They include among other factors (1) the general increase in enrollment, (2) the continuing shift in special education services from out-of- to in-district, and (3) changes in rules/regulations/laws that increase the teacher assessment workload and the level of effort for other tasks. A table on page 16 of the Budget Overview section of the FY2014 School Committee Budget presents staffing levels by unit and fiscal year.

<b>Program 1200: Regional Schools</b>	<b>Funds Requested</b>	<b>Funding Source</b>
	<b>\$1,474,266</b>	<b>GF</b>

The Minuteman Regional High School (MRHS) Committee has accepted a budget for FY2014 of \$18,547,098, a \$1,295,385 or 7.51% budget increase over FY2013. This increase consists of a 4.8% increase in the costs of operations and a 60.6% increase in capital costs. The operations budget is a level-service budget, designed to accommodate a greater number of students, while continuing to reevaluate staffing needs. The school continues to see a reversal of declining in-district enrollment. The freshman class for Fall 2013 is expected to increase again.

Due to lack of consensus among the District member towns, the school still remains unable to initiate a MSBA approved renovations program to address unmet needs in Career and Technical Education facilities and equipment. This project process is in its fifth year and the delays have prompted the New England Association of Schools and Colleges to put Minuteman on Warning Status for having failed to make progress under the Facilities Standard. A major consequence of this delay is that the district towns have to address urgent maintenance problems that would be better handled as planned renovations, and that would be less costly if they could be done with MSBA support. To build consensus for a capital program and to ensure future district operations are sustainable, the District School Committee is undertaking a feasibility study. The study's goals include: defining enrollment trends, potential program changes, and regional agreement revisions.

One of the sticking points is that the State sets the tuition charged to out-of-district students based on operational costs, yet it does not allow the district to charge a capital fee to these students. These students comprise almost 45% of the school population. The district is working hard to convince the State to either change the tuition formula to account for capital or to create another mechanism to allow districts to share capital costs with these non-district pupils.

This budget assumes level out-of-district enrollment and a 10% growth of in-district students, with an anticipation that the incoming freshman class will increase by 70 students. Eighty percent of the operating budget increase occurs in salaries, health benefits and contracts in place. Salaries, which make up 61% of

the operating budget, increased \$803,280 (4.37%). The school continues its commitment to small-scale infrastructure renewal with an annual capital budget of \$870,000, which includes a \$200,000 contribution to their Stabilization Fund.

As of October 12, 2012, 666 full-time students were enrolled. Roughly 56% of these students are from in-district towns and 44% are from out-of-district towns. The School Committee continues to vote to not accept School Choice students at MRHS. Total full-time enrollment increased by 7 students (1.1%). In-district enrollment decreased by 11 students (-2.9%) and out-of-district enrollment increased by 18 students (6.5%). Special education students comprise 88.7% of the school's FTE enrollment.

The FY2013 non-resident tuition rate, capped by the State, was set at \$19,046 per student. It is expected to decrease in FY2014 based upon recent information provided the Massachusetts Department of Elementary and Secondary Education (DESE). In addition non-resident SPED tuition assessments will continue to be \$5,000 per student (in-district SPED costs are \$4,500 per student), with all transportation costs assumed by the sending community.

Post Graduate (PG) enrollment on October 1, 2012 dropped significantly (39%) from the prior year. This drop in enrollment will likely yield less than the anticipated \$125,000 of FY2013 revenue and the FY2014 revenue projection dropped to \$100,000. There are 77 PG students; PG in-district enrollment dropped 33% while out-of-district enrollments dropped 43%.

Member towns are assessed for the upcoming year based on their student enrollment in the current year. These assessments are used to fund the portion of this budget that is not funded by the combination of: (1) all other projected revenues, and (2) member towns' State Required Minimum (SRM) per-student payments. This year's assessments are based on an MRHS budget funded with a projected \$2,115,902 of Chapter 70 money and \$600,000 in transportation aid. These estimates are based on the Governor's H-1 budget, which indicates increased funding in Chapter 70 aid and level funding in transportation aid compared with FY2013. All of these figures, with the exception of the bottom line MRHS total, are preliminary until final approval of the State's FY2014 budget.

#### **Using Tuition Revenue From The Current Year**

Three years ago our report included a criticism of the use of prior-year and current-year tuition money. Up until FY2002 the school budgeted very conservatively, considering anticipated but uncollected tuitions to be too speculative, and only applied the tuition collected from the prior year towards its budget. Starting in FY2003, \$280,000 of current-year (anticipated) tuition was applied towards the budget. The application of anticipated tuition then began a potentially dangerous increase (see table below) that trended towards a point where eventually all anticipated current-year tuition revenue would be applied to the same year's budget. That trend ended with the FY2013 budget, and we are pleased to report that the FY2014 revenue plan draws on a reserve of \$5,100,000 from prior-year tuitions, reducing the use of current-year tuitions to \$600,000.

#### **The Application of Tuition Revenue**

<b>Total Minuteman</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>
<b>Current Year Tuition</b>	375,392	382,181	888,363	1,541,984	1,480,984	900,000	600,000
<b>Prior Year Tuition</b>	3,112,724	3,473,927	3,457,303	2,888,748	2,793,400	3,700,000	5,100,000

**Minuteman's Projected Assessment - based on unapproved House-1 budget**

PROGRAM	FTE BASIS ENROLLMENT*		AVG. PER PUPIL CHARGE		ASSESSMENT	
	FY13	FY14	FY13	FY14	FY13	FY14
<b>Grades 9-12:</b>						
Regular Day Students	54	53	\$5,762	\$6,700	\$311,159	\$355,111
<i>Special Education Assessment</i>	22	27	\$4,500	\$4,500	\$99,000	\$121,500
<i>State Minimums for Lexington</i>	60	58	\$14,266	\$13,540	\$855,942	\$785,340
Totals, grades 9-12(incl. SPED)	54	53	\$23,446	\$23,810	\$1,266,101	\$1,261,951
<b>Post Graduate Programs:</b>	9	7	\$3,000	\$3,000	\$27,000	\$21,000
<b>TOTAL OPERATING</b>	63	<b>60</b>	\$21,518	\$21,383	\$1,355,606	\$1,282,952
<b>Special Assessments (based on enrolled 9-12)</b>						
Capital Assessment			\$970	\$3,610	\$52,372	\$191,314
Debt & Feasibility Study Interest			\$1,158	-	\$62,505	-
<b>TOTAL ASSESSMENT</b>			\$22,349	<b>\$24,571</b>	\$1,407,978	<b>\$1,474,266</b>
Percentage increase (decrease) over prior year			9.37%	9.94%	(17.48%)	4.71%

\* - prior year's enrollment as of Oct. 1

A breakdown of the full assessment is given above. The preliminary FY2014 assessment for Lexington is \$66,288 (4.7%) more than the FY2013 actual assessment. This is slightly less than the percentage growth of the total district budget and due to a drop in enrollment of one Regular Day student. The Regular Day Student and Capital and feasibility study assessments are based on Lexington's FY2013 Base Enrollment (as of October 1, 2012) of 53 full-time regular students in grades 9-12. This has increased our total full-time student operating-share assessment slightly to \$355,111, with a per-pupil increase of 16.28%. This increase is primarily driven by the 272% increase in the per student capital assessment. The State Required Minimum payment has decreased \$70,602 due to a decrease per-student charge. Additional savings are seen in a \$6,000 reduction in our PG program costs, where the number of students enrolled in post-graduate programs has decreased.

Program 2000: Shared Expenses	Funds Requested	Funding Source
	<b>\$45,883,421</b>	<i>See Motion</i>

Shared Expenses encompasses line 2100, Employee Benefits; line 2200, Debt Service; line 2300, Reserve Fund; and line 2400, Public Facilities. See Section IV in the Brown Book for more information.

**Line 2100 Employee Benefits:** This line includes the annual payment to the Lexington Retirement System to cover the costs of the future pension liability incurred by active municipal employees and non-teaching school employees and to cover the unfunded liability incurred in prior years; the Town's share (1.45%) of employee compensation for the Medicare tax; health and dental insurance for current and retired employees; premiums for property and liability insurance policies; potential unemployment and workers compensation expenses; and an appropriation to cover uninsured losses. The financing of the unfunded liability for retiree health insurance benefits (OPEB) is covered under Article 18.

**Health Insurance:** The largest single component of employee benefits expenses is the Town's contribution to health insurance for current and retired employees (line 2130). The FY2014 projected budget for line 2130 is \$20,945,505, a decrease of \$54,495 (-0.26%) from the FY2013 appropriated budget. The FY2013 and FY2014 appropriations reflect decreases from prior years due to the Town joining the Commonwealth of Massachusetts Group Insurance Commission (GIC) as of July 1, 2012.

The following points summarize the main aspects of employee health insurance under the agreement between the Town and the coalition of employee bargaining units reached in February, 2012, which covers Town and School employees.

- The Town transferred its employee and retiree subscribers to the GIC as of July 1, 2012 and, per GIC rules, is committed to remain a participating municipality for at least 3 years, i.e., through the end of FY2015.
- Each benefits-eligible employee and retiree may choose a plan from the GIC plan menu.
- The premium contribution rate split returned, for most plans, to the levels that existed before the most recent health benefits contract negotiated in 2010, i.e., to 85% for the Town and 15% for active employee subscribers and 80%/20% for retirees (but see the discussion below about the HRA and Part B subsidies).
- Two Health Reimbursement Accounts (HRAs) desired by employees were established.
- A Medicare Part B subsidy is provided to retirees.
- The HRA and Medicare Part B subsidies are funded by contributions from both the Town and active employees and retirees. The Town has no obligation to continue this funding beyond the conclusion of FY2015.

Funding for the HRA and the Medicare Part B subsidies comes from several sources.

- 1) The Town made a one-time payment of an amount of \$1,120,000 (equal to 25% of the anticipated savings accruing in the first year after transferring to the GIC) to an employee mitigation fund. The one-time payment was included in the \$21,000,000 FY2013 adopted budget for health insurance.
- 2) Each year, the Town will contribute to the mitigation fund the amount of subscriber premium contributions that differ from what subscribers would have paid using the premium contribution rate split in effect before the 2010 agreement. For plans with a higher subscriber premium contribution rate (e.g., indemnity plans) that difference is added to the fund and for plans with a lower subscriber premium contribution rate (e.g., retiree Medicare supplement plans) the difference is withdrawn from the mitigation fund by the Town. This contribution is cost neutral to the Town as it is equal to the excess amount collected in subscriber premium contributions.<sup>1</sup>
- 3) Additional funding was provided by a transfer of a portion of the Health Insurance Claims Trust Fund equal to the premiums paid by employees but not spent to cover claims under Lexington's pre-GIC self-insured health plan. That portion of the HICTF would otherwise have been returned to the employees.

*Projecting Health Benefits Costs and Enrollments:* Under the GIC, Lexington's actual claim history is only one of many factors that must be taken into account in projecting costs. Lexington's costs are now driven by the GIC rates which reflect the overall GIC claims history as well as how our subscribers

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<sup>1</sup> The proportion of the premiums to be paid by the Town for the duration of this agreement, 85% for active employees and non-Medicare retirees and 80% for retirees in Medicare supplement plans, is the same as that paid prior to the 2010 agreement. This is the same proportion that the Town would have paid if it had unilaterally elected to join the GIC. The agreement sets premium contribution percentages by the employee and retiree subscribers to 25% for high-cost indemnity plans and, 15% increasing to 18% in year 3 of the agreement, for all other plans. Amounts equal to the contributions in excess of 20% for Medicare retirees and in excess of 15% by other subscribers will not be used for premiums but will go into the mitigation fund. In addition, to compensate for the decrease in retiree contribution split for Medicare supplement plans from amount prior to the 2010 agreement, the difference between 15% and 20% will be withdrawn from the mitigation fund in years 1 and 2, and the difference between 18% and 20% will be withdrawn in the third year of the agreement.

choose among the various plans offered by the GIC. The total enrollment remains a critical variable, but the choices of plans by subscribers are also important. For estimating FY2014 expenses, the Town was able to use the FY2013 experience as a base.

Enrollment numbers and projections are shown on page IV-6 of the Brown Book. The FY2014 budget is designed to accommodate an enrollment reaching 2286, an increase of 95 subscribers (4.3%). This increase allows for changes in enrollments due to new hires to fill currently open positions (9) or newly created positions (57) and provides a buffer for new subscribers among present employees/retirees (26). It also captures increases in numbers of subscribers coming from the movement of eligible employees from family plans to Medicare supplement plans that does not lead to cost increases.

The health insurance amount in line 2130 reflects an increase of 5.4%, when discounting the one-time FY2013 mitigation payment of \$1,120,000, due to the expected combined effects of changes in the number of subscribers, and increases in the costs of medical services. The net effect relative to the total FY2013 health insurance appropriation is a small decrease in the overall budget for health benefits as stated above.

**Line 2100 in aggregate:** The total amount budgeted for Line 2100 is \$29,688,138. This amount is 1.2% less than the corresponding number for FY2013. Besides employee/retiree health insurance, line 2130 includes \$910,832 for dental insurance, \$1,305,421 for Medicare Tax, which the Town pays for all Town and School Department employees hired after 1986, and \$20,400 for life insurance.

The FY2014 budget includes the amount of \$200,000 on line 2140, Unemployment Benefits, to fund the Town's estimated statutory liability for unemployment compensation payments for employees who were or may be laid off. This is a 31% reduction from FY2013 reflecting an anticipated reduction in the number of employees eligible for unemployment insurance benefits and in the lengths of time that they will be eligible for unemployment benefits.

The Workers Compensation recommended appropriation in line 2150, \$610,915, represents a 0.42% increase over FY2013 and continues the Town's response to actual experience and efforts to build a reserve balance in this continuing balance account.

The second largest line in Shared Expenses is line 2110, Contributory Retirement, \$4,805,537. This amount is based on an actuarial valuation of the Lexington Retirement System. It will be paid by the Town to the System, which is managed and overseen by the Lexington Retirement Board, to fund the Town's pension payments to retirees in FY2014 as well as to help fund liabilities for future payments due to current or past obligations. The recommended appropriation for FY2014 represents a \$400,000 or 7.68% decrease from the total FY2013 appropriation. Note that the FY2013 total includes a one-time supplemental appropriation for Contributory Retirement of \$1 million that was approved at the November 2012 special town meeting. If this supplemental appropriation is removed from the FY2013 base, the underlying change in costs between FY2013 and FY2014 is an increase of \$600,000, or 14.3%. The major drivers of this increase are the final phase of capturing the losses attributable to the 2008 recession and a change in the mortality table used in the biennial valuation of plan liabilities, specifically the recognition that members are living longer. The Retirement Board's goal is to achieve full funding of the liabilities by the year 2030.

**Line 2200 Debt Service** This line item includes within-levy debt service, i.e., it does not include exempt debt authorized by Proposition 2½ debt service referenda. This line also does not include the request to appropriate \$1,600,000 from the Capital Project/Debt Service Reserve/Building Renewal Stabilization Fund in order to pay a portion of the payments that would normally be covered by the FY2014 exempt debt service. That is covered under Article 20.

**Line 2300 Reserve Fund** The Reserve Fund request is level funded at \$900,000.

**Line 2400 Public Facilities** The Department of Public Facilities (DPF) is responsible for municipal and school facilities management and maintenance functions. The Department administers major capital projects, building maintenance, and custodial services.

Overall, DPF funds expenses are projected to increase by 3.83% from FY2013 to \$10,182,713. The budget includes funding for 6.6 FTE new positions, including an additional custodian to start work at the larger new Estabrook School when it opens and three custodians to work at the proposed new community center at 33 Marrett Rd. These and other details of the DPF staffing and budget may be found in the Shared Expenses section of the Brown Book.

Program 3000-8000: Total Municipal	Funds Requested	Funding Source
	\$30,052,835	See Motion

**Line 3300 DPW Public Grounds** – The Public Grounds department is requesting \$45,000 to share the cost of grounds maintenance of the 33 Marrett Rd with the Scottish Rite Trustees, using the landscaping company which currently is contracted to care for the entire property. The Forestry Division will add one full-time position for \$38,043. This increased expense will be offset by a decrease in the Highway Division, due to a one-time contractual expense ending.

**Line 4100 Law Enforcement** – The Police Department is requesting \$58,040 for an Administrative Sergeant, a new position, which will free up a Sergeant for patrol supervision. The Department is seeking two pieces of hardware to boost operating efficiency: \$21,800 for an electronic fingerprint scanner which will eliminate the ink pad printing; and \$8,197 for a *Spectracom NetClock*, which will allow the dispatchers to accurately record and synchronize events.

**Line 5100 Cary Memorial Library** – The Library plans to stay open three additional Sundays with a request for \$3,511.

**Line 6210 Transportation Services** – The Transportation Services is a part of the Human Services Department. A request for \$10,868 will allow them to convert a part-time Transportation Coordinator position to full-time. This would allow for increased planning and implementation of new transportation initiatives, help oversee the Liberty Ride contract, and provide increased outreach and education. Additionally, \$20,000 of Transportation Demand Management Stabilization Funds will be used as matching funds for the Route 128 Business Council shuttle.

**Line 7100 Office of Community Development** – The Conservation Department is seeking a 16% increase in funding for: \$12,250 Conservation Town Ranger, for education and for the enforcement of open space by-laws; \$5,400 to increase the hours of their two land management interns, improving response on conservation land issues; a one-time \$7,500 to convert Old Idyewilde from garden to natural space; and \$875 for the ACROSS Lexington project, which will be added to \$5,000 of CPA funds requested under Article 8(n), to fund a 3 year project to create a pedestrian/bike route.

**Line 7200 Planning** – The Planning Department is seeking a 49% increase in their consulting expenses. This \$15,000 will employ a consultant to assist them in their ongoing revision of the Town By-Laws.

**Line 8100 Board of Selectmen** – The Board of Selectmen require \$21,364 to convert a part-time municipal assistant position to full-time. This line item also allocates funds from the PEG Access Revolving Fund, which have been increased by \$30,000 to cover negotiated increases in the LexMedia budget and to provide additional technical staff to support broadcast of public meetings.

**Line 8230 Town Manager** – The Town Manager's line item includes the Salary Adjustment Account, a continuing budget account which funds unsettled contractual agreements for both municipal and school settlements. Only the Lexington Education Association and Department of Public Facilities contracts



have been settled, so this year's request is for \$801,988. The municipal departments have asked that an equivalent of 2.13% of their salaries be allocated to this account.

**Line 8400 Finance** – The Assessors Department is asking for two program improvements; \$50,000 for an Assessing professional services contract which would support legal costs for cases currently before the Appellate Tax Board, and allow for an anticipated increase in the caseload; and \$55,000 to add a third full-time Residential Analyst/Inspector in order to reduce the work backlog.

**Line 8500 Town Clerk** – The Town Clerk is responsible for documenting actions taken by Town Meeting. The \$40,000 requested here is to implement electronic voting at the Town Meeting, in response to the amending of Chapter 118 Section 17 (Voting) under Article 32. The request is for a one-time expense of \$35,000 for electronic vote recording hardware and software, and \$5,000 for ongoing additional staff time to maintain and operate the system. This line item also includes a decrease of \$15,536 in personal services and a decrease of \$20,000 in contractual services. These reductions reflect that in FY2014 there is only one town-wide election planned, not three elections as in FY2013.

**Line 8600 Information Technology** – The Information Technology department supports all the Town Departments technology needs. This year's request includes \$38,999 for *Viewpermit* hardware, for use of inspectional services in Fire, Community Development and Engineering. It's a comprehensive, integrated electronic permit management and tracking system that will allow real-time in-the-field access for the staff, reducing paperwork and increasing accuracy. Additionally requested is: \$3,500 for web hosting for the *LexEngage* community forum; and \$4,800 to install an independent network connection, which will increase bandwidth and create a backup WAN in case the current RCN network encounters problems.

**The Committee recommends approval of this request (9-0).**

<b>Article 5: Appropriate FY2014 Enterprise Funds Budgets</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$7,888,530 \$8,800,750 \$1,785,840</b>	<b>Water EF Wastewater EF Recreation EF</b>	<b>Approve (9-0)</b>

This Article governs the appropriation of funds for the operation of the Town's three enterprise funds – the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund – with the exception of indirect costs which are appropriated under Article 4. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please refer to Appendix B. The following discussion will focus on the anticipated expenses and revenues of the enterprise funds for FY2014 and issues they raise.

A breakdown of the funding request for this article is shown in the following tables.

<b>Water Enterprise Fund</b>	<b>FY2012 Actual</b>	<b>FY2013 Appropriated</b>	<b>FY2014 Requested</b>	<b>% Change</b>
Personal Services	\$603,565	\$647,687	\$667,183	3.0%
Expenses	\$387,265	\$389,590	\$395,200	1.4%
Debt Service	\$1,233,364	\$1,299,091	\$1,260,655	-3.0%
MWRA Assessment	\$5,049,999	\$5,145,927	\$5,565,492	8.2%
<b>Total Requested in Article 5</b>	<b>\$7,724,193</b>	<b>\$7,482,295</b>	<b>\$7,888,530</b>	<b>5.4%</b>
Indirect Expenses	\$704,624	\$665,848	\$818,689	23.0%
<b>Total Water Enterprise Budget</b>	<b>\$7,978,817</b>	<b>\$8,148,143</b>	<b>\$8,707,219</b>	<b>6.9%</b>

<b>Wastewater Enterprise Fund</b>	<b>FY2012 Actual</b>	<b>FY2013 Appropriated</b>	<b>FY2014 Requested</b>	<b>% Change</b>
Personal Services	\$201,519	\$276,183	\$292,711	6.0%
Expenses	\$335,323	\$333,200	\$337,100	1.2%
Debt Service	\$1,106,551	\$956,855	\$1,131,673	18.3%
MWRA Assessment	\$6,802,875	\$6,954,177	\$7,039,266	1.2%
<b>Total Requested in Article 5</b>	<b>\$8,356,268</b>	<b>\$8,520,415</b>	<b>\$8,800,750</b>	<b>3.3%</b>
Indirect Expenses	\$646,217	\$623,444	\$456,603	-26.8%
<b>Total Wastewater Enterprise Budget</b>	<b>\$9,002,485</b>	<b>\$9,143,859</b>	<b>\$9,257,353</b>	<b>1.2%</b>

<b>Recreation Enterprise Fund</b>	<b>FY2012 Actual</b>	<b>FY2013 Appropriated</b>	<b>FY2014 Requested</b>	<b>% Change</b>
Personal Services	\$594,026	\$645,044	\$677,799	5.1%
Expenses	\$932,667	\$1,018,584	\$1,008,041	-1.0%
Debt Service	\$131,500	\$130,600	\$100,000	-23.4%
<b>Total Requested in Article 5</b>	<b>\$1,658,193</b>	<b>\$1,794,228</b>	<b>\$1,785,840</b>	<b>-0.5%</b>
Indirect Expenses	\$213,600	\$223,600	\$228,600	2.2%
<b>Total Recreation Enterprise Fund</b>	<b>\$1,871,793</b>	<b>\$2,017,828</b>	<b>\$2,014,440</b>	<b>-0.2%</b>

Note that this table differs from that contained in the Warrant in two respects: the MWRA assessments for water and wastewater reflect the MWRA's preliminary assessments issued in February rather than placeholders assumed in the Warrant; and indirect expenses that will be charged to the enterprise funds, although appropriated separately under Article 4, have been included for completeness.

### **Water and Wastewater Funds**

*MWRA Assessments.* The largest expense component of both the Water and Wastewater Enterprise Fund budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA). The Town will be assessed a share of the MWRA's total FY2014 water and sewer budgets based on the Town's proportionate water and sewer usage in the prior calendar year (CY2012), compared with other towns in the MWRA community. Preliminary assessment figures are published in February of each year and final assessments are made in June. The appropriations for MWRA expenses in the motion for this article will be adjusted from the "placeholder" figures in the Warrant to reflect the MWRA's February 2013 preliminary assessment estimates, as shown in the following table:

#### **MWRA Assessments**

<b>Fund</b>	<b>FY2013 Final Assmt.</b>	<b>FY2014 Warrant Placeholder</b>	<b>FY2014 Prelim. Assmt.</b>	<b>% Change vs. FY2013</b>
<b>Water</b>	\$5,145,927	\$5,668,686	\$5,565,492	8.2%
<b>Wastewater</b>	\$6,954,177	\$7,735,633	\$7,039,266	1.2%
<b>Combined</b>	\$12,100,104	\$13,404,319	\$12,604,758	4.2%

The final MWRA assessments issued in June, which are typically somewhat lower than the preliminary assessments, will be used to set water and sewer rates during the Town's FY2014 rate-setting process in the fall. If a special town meeting is held in the fall, the appropriation for MWRA costs may be adjusted upwards or downwards as a "housekeeping" matter.

It should be noted that this year's increase in Lexington's MWRA water assessment of 8.2% is considerably higher than the MWRA-wide average increase of just 3%. This discrepancy is largely attributable to a major spike in the consumption of water by the Town of Bedford during the late summer and early fall of 2012 as part of a remedial pipe flushing program to remove contamination in certain parts of its water system.<sup>2</sup> As a consequence of that event, Lexington's consumption of MWRA water increased in CY2012 by 4.6%, compared with an MWRA-wide increase in water use of less than 1%. Now that the problem in Bedford has been resolved, it can be anticipated that Lexington's MWRA water share will drop back to normal and thus fall, relative to other MWRA communities, in CY2013. This should result in a lower-than-average water assessment increase next year (for FY2015). In the meantime, additional revenue that the Town of Lexington earned from the Town of Bedford in 2012 due to the flushing program was excluded from consideration in setting the FY2013 water rates, and thus should add to the water fund's retained earnings to help mitigate this year's water rate increase. (See discussion below of the use of retained earnings to mitigate FY2014 rates.)

*Direct Town Costs.* In addition to the MWRA assessments, the expenses of the Water and Wastewater Fund budgets include direct costs incurred by the Town, primarily for: (1) the wages and salaries of the employees in the DPW's Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer enterprise capital improvements. All of these direct costs are increasing at moderate levels or decreasing (see Brown Book, pp. V-25, V-27) with the exception of sewer fund debt service costs which continue to grow at a comparatively high rate (18.3%).

As this Committee has noted in past reports, the growth of debt service costs is a predictable consequence of a transition made six or seven years ago from an earlier practice of funding ongoing capital improvements and repairs to the water and wastewater infrastructure with a combination of debt and cash capital to a practice of funding them primarily with debt. See the discussion of Articles 11 (Water Capital) and 12 (Sewer Capital) and accompanying tables. While debt financing helps to spread the costs of projects over their useful life, the immediate effect of the change was a temporary lowering of current-year capital costs. As interest payments and principal repayments come due on the higher levels of debt incurred, the annual capital costs of the enterprise funds that must be captured in the water and sewer rates are gradually growing back to their original levels. In addition, the Water and Sewer Enterprise Funds' debt service burden has been increased by their assumption of responsibility for approximately 25% of the debt service costs for the construction of the new DPW facility (17% and 7% respectively, based on their usage of that building).

This year, as will be addressed in the discussion of Articles 11 and 12, it is proposed to finance \$750,000 of a total \$1,095,500 in water system capital improvements, and \$200,000 of a total \$1,445,500 in sewer improvements, from retained earnings. The Committee applauds this proposal as it will both bring the level of retained earnings down to more reasonable levels and mitigate future increases in debt service costs, thus providing long-term as opposed to mere temporary, short-term rate relief.

*Indirect Town Costs.* The Water and Sewer Enterprise Fund budgets also include indirect costs for services provided by other Town departments to support water and sewer operations, such as insurance costs (health and liability), retirement funding, engineering costs, and the cost of services provided by the Comptroller, the Management Information Systems (MIS) Department, and the Revenue Department. In 2006, Town staff conducted an analysis of indirect charges and concluded that they were higher than could be justified. To address this issue without causing undue disruption to the Town Budget, the level of indirect costs charged to the water and sewer funds was gradually phased down, from FY2008 through FY2012, at the rate of about 3-5% per year. This year, following the performance of an updated indirect cost analysis, the indirect costs charged to the water fund will be *increased* by approximately \$150,000 from \$665,848 to \$818,689, or about 23%; and the indirect costs charged to the sewer fund will be *de-*

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<sup>2</sup> Lexington re-sells MWRA water to the Town of Bedford on a pass-through, wholesale basis.

creased by approximately \$165,000 from \$623,444 to \$456,603, or about 27%. Because the increases and decreases are roughly offsetting, the net effect on combined water and sewer rates going forward will be minimal.

### **Rate-Setting, and Reserves**

As discussed in Appendix B, the state statute governing enterprise funds, G.L. c. 44, § 53F½, requires that accumulated surpluses resulting from the operations of an enterprise fund, referred to as retained earnings, remain with the fund as a reserve, and that they be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates.

During the early 2000s, difficulties in forecasting usage and other accounting issues resulted in rates being set at less than adequate levels in several rate years. This, in turn, reduced the retained earnings in the Water and Sewer Enterprise Funds to levels of concern. Since 2005, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has improved significantly. This has enabled the Town to restore and stabilize the water and sewer enterprise fund reserve balances,<sup>3</sup> and indeed more recently to draw some of the funds down for rate relief or other purposes, as shown in the table below.

#### **Retained Earnings: Appropriations for Rate Relief and Year-End Balances**

	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>
<i>Water</i>							
<b>Rate Rel. App.</b>	\$362,570	\$463,046	\$525,000	\$450,000	\$650,000	\$350,000	*\$300,000
<b>End Balance</b>	\$2,537,249	\$2,113,729	\$1,622,052	\$1,952,253	\$1,932,000	**\$1,032,000	
<i>Sewer</i>							
<b>Rate Rel. App</b>	\$0	\$0	\$625,000	\$400,000	\$300,000	\$150,000	*\$100,000
<b>End Balance</b>	\$2,763,179	\$1,831,967	\$1,525,612	\$1,168,190	\$1,319,000	**\$1,019,000	
<i>Combined</i>							
<b>Rate Rel. App.</b>	\$362,570	\$463,046	\$1,150,000	\$850,000	\$950,000	\$500,000	*\$400,000
<b>End Balance</b>	\$5,300,428	\$3,945,696	\$3,147,664	\$3,120,443	\$3,251,000	**\$2,051,000	

\* Proposed appropriations from retained earnings to subsidize the FY2014 operating budget.

\*\* Projected retained earnings at the end of FY2013. The projection assumes: (1) break-even operational results during the current fiscal year; (2) appropriations from retained earnings at this year's Annual Town Meeting for rate relief (\$300,000 water and \$100,000 sewer) and capital improvements (\$750,000 water and \$200,000 sewer); and (3) supplemental water fund revenue of \$150,000 from the Town of Bedford that was not included in the rate-setting budget. Note that appropriations from retained earnings made this spring must be deducted as a liability from the projected retained earnings to be certified as of 6/30/2013 even though the funds will not be applied until the following fiscal year.

As can be seen from the chart above, from FY2010 through FY2012 the Town appropriated significant amounts of retained earnings at each year's Annual Town Meeting to subsidize the following fiscal year's water and sewer budget. Once a practice of making recurring appropriations of retained earnings for rate relief is adopted, however, it can be difficult to unwind. Even without any increase in costs, eliminating a combined annual subsidy of \$1,000,000 from retained earnings of the water and sewer funds in any given year would result in a combined rate increase of about 6%. Unless rates are set high enough each year to "earn back" the previously appropriated subsidy – a circular exercise that defeats the purpose of the ap-

<sup>3</sup> This Committee has previously urged that a policy be adopted defining the appropriate level of retained earnings to be maintained for emergency purposes for both funds, and setting forth guidelines for the use of such funds either to mitigate future rate increases or to finance capital projects. Although a definitive policy still has not been adopted, the Town Manager has recommended maintaining reserves of approximately \$1,000,000 in each of the fund.

appropriation for rate relief in the first place – the availability of retained earnings for rate relief would eventually give out, leading to a major spike in rates. For this reason, the Committee advocated last year a reduction in the amount of the combined subsidy for FY2013 (a year in which overall combined cost increases were very small) from the originally proposed amount of \$750,000 to the ultimately appropriated amount of \$500,000,<sup>4</sup> with the goal of ultimately “weaning off” the need for regular “rate relief” appropriations from retained earnings altogether.

This year’s budget proposes a modest additional reduction in the combined annual retained earnings subsidy – a reduction in the water subsidy from \$350,000 to \$300,000 and a reduction in the sewer subsidy from \$150,000 to \$100,000. These reductions will help make additional progress toward the goal of eliminating the annual subsidy while increasing the required combined FY2014 rate increase by only about 0.5%. At the same time, continuation of a substantial water rate subsidy this year is reasonable as it will allow the Town to offset the unusual spike in Lexington’s FY2014 MWRA water assessment, attributable to excess water usage by Bedford in CY2012, with surplus 2012 revenues from Bedford that were specifically reserved for this purpose,

### **Recreation**

This level-service budget represents a decrease of about \$3,500 (-0.2%) from last year. Wages and salaries are projected to increase moderately (5%) for five full-time staff and \$175 +/- seasonal staff. Expenses are decreasing by about 1% and debt service costs will decrease substantially by 23.4% to \$100,000 (the Recreation Fund’s annual commitment to contribute to the financing of the 2002 Lincoln Field restoration project). Indirect costs payable to the General Fund for Town services will increase slightly by \$5,000, or 2.2%, based on the Town’s most recent indirect cost analysis.

All programs offered by the Recreation Department are designed to be revenue-neutral with charges to users matching the program’s operating costs of approximately \$2,000,000. Sources of revenue include user fees for fields and registration fees for programs, which total a little over \$1,000,000; and revenue from golf course fees, which total a little under \$1,000,000.

The Recreation Enterprise Fund retained earnings were certified as of the end of FY2012 (6/30/2012) at \$1,389,828. This year’s operating budget, like last year’s, includes a “working capital” appropriation of \$375,000 from retained earnings that should be replenished by user fees received through the end of FY2013. More permanent draws from the Recreation Fund’s retained earnings are also proposed for capital purposes under Article 8(h) (\$186,750 for Lincoln Park Field Improvements) and 9(a) (\$75,000 for Pine Meadows Golf Club improvements).

### **The Committee recommends approval of this request (9-0).**

<b>Article 6: Appropriate for Senior Service Program</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$20,000</b>	<b>GF</b>	<b>Approve (9-0)</b>

This article proposes an appropriation for the Town’s Senior Service Program of \$20,000. This amount, together with an anticipated carryover balance from prior years of approximately \$16,000, is expected to be sufficient to meet the needs of the program in FY2014.

<sup>4</sup> Because the enterprise funds’ cost increases were unusually small last year (about 2%) the rate increases required for FY2013 when rates were set in the fall of 2012, even with a significant reduction in the subsidy, were just 2.7% for water and 4.0% for sewer, for a combined rate increase of 3.6%.

**The Senior Service Program**

Since 2006, the Town has operated its own Senior Service Program, which allows low-to-moderate income seniors to perform volunteer work for the Town in exchange for a reduction in their property tax. The Town adopted this program, in substitution for a similar program previously operated under G.L. c. 59, § 5K, to allow it more flexibility in setting the age criteria for participation, the wage rate, and the total amount of credit allowed.

Unlike the former program, which was funded through the Town's overlay account, the Senior Service Program is funded by direct appropriation from the tax levy. For general background on the Senior Service Program and other property tax relief options available to seniors, including exemptions and opportunities for deferral, please refer to Appendix D.

**Benefits and Criteria for Participation**

The maximum amount of the tax reduction that may now be earned, under guidelines that have been established by the Selectmen, is \$935 (110 hours at \$8.50 per hour) for an individual and \$1,190 (140 hours at \$8.50 per hour) for a couple. Participants may receive property tax reductions under this program in addition to any other exemption for which they qualify, such as the \$1,000 Clause 41C exemption, and may also defer the balance of their taxes under Clause 41A if they are eligible to do so. Current income eligibility criteria are set forth in Appendix D.

**Funding Requirements and Requested Appropriation**

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first established in FY2007, the program was funded at \$25,000, an amount slightly higher than the average annual amount that had been expended from the overlay account under the pre-existing state program during the 2004-2006 fiscal years. In anticipation of higher usage, the annual appropriation was subsequently increased for FY2007 (at a fall special town meeting) to \$36,000, for FY2008 to \$40,000, and for FY2009 and FY2010 to \$45,000.

This level of funding, however, proved to be more than was required to allow the Town to admit all eligible applicants who wished to participate in the program. Despite efforts to expand participation, including increases in the income threshold, the numbers have been stable at around 30-34 persons from FY2007 through FY2013 and annual expenditures have ranged from \$22-28,000. Accordingly, no appropriation was required for FY2011 and subsequent appropriation requests have been scaled back to reflect realistic funding requirements and the amount of carryover funds available. The appropriation that will be requested this year, \$20,000 instead of the \$45,000 amount stated in the Warrant, will be more than adequate to support current needs and also allow for some expansion. Going forward, however, the Selectmen may wish to consider steps to enhance interest in this worthy program, including liberalizing eligibility thresholds, enhancing benefits, and increasing publicity.

**The Committee recommends approval of this request (9-0).**

<b>Article 7: Establish and Continue Departmental Revolving Funds</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<i>See below</i>	<b>RF</b>	<b>Approve (9-0)</b>

<b>Fund #</b>	<b>Program or Purpose</b>	<b>Authorized Representative or Board to Spend</b>	<b>Departmental Receipts</b>	<b>FY2013 Authorization</b>	<b>FY2014 Requested Authorization</b>
<b>1100</b>	School Bus Transportation	School Committee	School Bus Fees	\$830,000	\$830,000

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<b>Fund #</b>	<b>Program or Purpose</b>	<b>Authorized Representative or Board to Spend</b>	<b>Departmental Receipts</b>	<b>FY2013 Authorization</b>	<b>FY2014 Requested Authorization</b>
<b>2400</b>	Building Rental Revolving Fund	Public Facilities Director	Building Rental Fees	\$375,000	\$405,000
<b>3110</b>	Regional Cache – Hartwell Avenue	Public Works Director	User Fees from Participating Municipalities	\$20,000	\$20,000
<b>3320</b>	Trees	Board of Selectmen	Gifts and Fees	\$20,000	\$25,000
<b>3330</b>	DPW Burial Containers	Public Works Director	Sale of Grave Boxes and Burial Vaults	\$35,000	\$40,000
<b>3420</b>	DPW Compost Operations	Public Works Director	Sale of Compost and Loam, Yard Waste Permits	\$400,000	\$465,000
<b>3420</b>	Minuteman Household Hazardous Waste Program	Public Works Director	Fees Paid by Consortium Towns	\$175,000	\$175,000
<b>6120</b>	Council on Aging Programs	Human Services Director	Program Fees and Gifts	\$100,000	\$100,000
<b>7140</b>	Health Programs	Health Director	Medicare Reimbursements	\$10,000	\$10,000
<b>7320</b>	Tourism/Liberty Ride	Town Manager and Tourism Comm.	Liberty Ride Receipts	\$285,000	\$290,000
<b>8140</b>	PEG Access	Board of Selectmen and Town Manager	License Fees from Cable TV Providers	\$450,000	\$450,000

Reauthorization of all existing municipal revolving funds is requested for FY2014 as shown in the table above. Detailed descriptions of these funds can be found in Appendix C. A summary of the Revolving Fund balances can be found on page C-2 in the Brown Book. The spending limit proposed for each of the funds is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required.

**Changes in Authorization Levels from FY2014**

The increases to the Building Rental, Trees, DPW Burial Containers and Tourism/Liberty Ride Revolving Funds are based upon anticipated increased usage of services, increased costs and are supported by anticipated increased revenue. The \$65,000 increased authorization in the DPW Compost Operations Revolving Fund is to cover increased staffing and to fund debt service for the reconstruction of the culvert under the facility's driveway.

**The Committee recommends approval of this request (9-0).**

<b>Article 8: Appropriate the FY2014 Community Preservation Committee Operating Budget and CPA Projects</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	\$3,048,377 \$186,750 \$228,250 \$875 <b>\$3,464,252</b>	<b>CPA</b> <b>Rec RF</b> <b>GF Debt</b> <b>GF Cash</b>	<b>Approve (9-0)</b> <i>except 8(c),(d),(e)</i>

The Community Preservation Act (CPA) is a state statute that allows municipalities to raise a surcharge on property taxes for local use for purposes related to historic preservation, open space (including recrea-

tion), and affordable housing. The State provides matching funds (the amount depending on monies available and demand from adopting communities) from fees imposed on real estate transactions, including mortgage refinancing.

While the CPA provides broad guidance on the appropriate use of funds, it allows for a considerable measure of local control by (1) establishing a local Community Preservation Committee (CPC) to review and make recommendations on candidate CPA projects to Town Meeting and (2) authorizing Town Meeting to approve CPC-recommended projects. Town Meeting may not *increase* a CPC-recommended appropriation, nor may it alter the stated purpose of an appropriation, but it may amend to *decrease* an appropriation.

Communities adopting the CPA have each implemented the statute in a way that reflects local opportunities, priorities and needs. One of Lexington's opportunities lies in the inventory of municipal and school buildings that qualify as historic buildings and which are therefore eligible for CPA funding. These projects can be funded through a combination of Lexington taxpayers' CPA surcharges and State matching funds. Of the total \$32,149,602 of CPA funds appropriated by Lexington for projects and administrative costs, Town Meeting has appropriated \$7,340,079 for historic projects, many of which have led to the renovation or rehabilitation of Town buildings; \$3,355,392 for recreation projects; \$9,592,017 for acquisition and preservation of land for open space; \$6,813,114 for community housing; and \$730,000 in administrative expenses. Categorization of an additional \$4,319,000, representing appropriations for the acquisition of the Busa Farm property, is pending.

### **The State Match**

Under the CPA, the State provides matching funds to supplement the Town's 3% CPA property tax surcharge. The state match is the product of the state matching rate times the amount collected by the Town for the *previous* fiscal year's CPA surcharge. This state match comes from the CPA Trust Fund, which is largely funded by a state fee on real estate transactions. The matching rate is determined by the State each year based on the balance in the CPA Trust Fund, and on the number of communities participating in the CPA.

In FY2007, the first year following Lexington's adoption of the CPA, there were 113 participating CPA communities and the state match rate was 100%. Beginning in FY2008, state revenue from the real estate transaction fees began to decline, along with the economy. In addition, the number of participating communities rose to 148 in FY2013. As a result of increasing participation and lower balances in the CPA Trust Fund, the state match rate fell to around 28% in FY2011 and has since hovered slightly below that level.

Since March 2012, the state revenue collected from real estate transactions has improved, but not enough to significantly affect the Town's state match for FY2014. The state match for FY2014 will be bolstered by the state legislature's decision to appropriate an additional \$25 million into the CPA Trust Fund in July 2012. In FY2014 (November 2013), it is estimated that the Town will receive a state match equal to 27% of the FY2013 surcharge, or approximately \$962,000. This will be in addition to the FY2014 CPA property tax surcharge revenue estimated at \$3,691,000.

### **Funds Available for Appropriation**

A total of \$6,628,088 in CPA funds is available for appropriation at this Town Meeting: \$1,958,131 in carry-forward reserves and \$4,669,957 in FY2014 anticipated revenues. The latter includes anticipated FY2014 surcharge collections of \$3,691,000, an anticipated State match of \$961,957 (estimated at 27% of the collected the Town's FY2013 surcharges), and \$17,000 in interest income.

### **The Motion**

The motion under Article 8 will be in two parts; the first section will distribute the anticipated revenue among reserve accounts and the second part will appropriate funds for the individual projects as outlined in the Warrant. To be consistent with the requirements of the enabling state statute, 10% of the anticipated



revenue will be allocated to each of the Open Space Reserve, the Historic Resources Reserve and the Community Housing Reserve. The remaining amount of 70% of the anticipated revenue will be allocated to the Unbudgeted Reserve. Appropriations will then be considered separately for each item to be considered under this Article, with a particular reserve or reserves specified as the source of funds for each project.

### **This Year's Requests**

The CPC has requested that Town Meeting appropriate \$3,048,377 of the available CPA funds under this Article. The requests are:

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
8(a) Archives and Records Management/Conservation	<b>\$20,000</b>	CPA	<b>Approve (9-0)</b>
8(b) CPA Conservation Restriction Enforcement	<b>\$25,000</b>	CPA	<b>Approve (9-0)</b>
8(c) Cary Memorial Building Upgrades	<b>\$550,000</b>	CPA	<b>Approve (8-1)</b>
8(d) Muzzey Senior Center Upgrade – Phase 3	<b>\$526,818</b>	CPA	<b>IP (7-0-2)</b>
8(e) Visitor Center – Design Phase	<b>\$68,950</b>	CPA	<b>IP (7-0-2)</b>
8(f) Park and Playground Improvements	<b>\$147,500</b>	CPA	<b>Approve (9-0)</b>
8(g) Park Improvements – Athletic Fields	<b>\$65,000</b>	CPA	<b>Approve (9-0)</b>
8(h) Lincoln Park Field Improvements	\$150,000 \$186,750 \$228,250 <b>\$565,000</b>	CPA Rec. RF GF Debt	<b>Approve (9-0)</b>
8(i) Lexington Center Pocket Park and Ancillary Costs	<b>\$21,500</b>	CPA	<b>Approve (9-0)</b>
8(j) Merriam Hill Preservation Project	<b>\$3,000</b>	CPA	<b>Approve (9-0)</b>
8(k) Moon Hill National Register Nomination Project	<b>\$6,000</b>	CPA	<b>Approve (9-0)</b>
8(l) Greeley Village Front Doors	<b>\$172,734</b>	CPA	<b>Approve (9-0)</b>
8(m) LexHAB Set-Aside	<b>\$450,000</b>	CPA	<b>Approve (9-0)</b>
8(n) ACROSS Lexington Pedestrian/Bicycle Route System	\$5,000 \$875 <b>\$5,875</b>	CPA GF Cash	<b>Approve (9-0)</b>
8(o) Buckman Tavern Restoration and Renovation	<b>\$650,000</b>	CPA	<b>Approve (9-0)</b>
8(p) Wright Farm Debt Service	<b>\$36,875</b>	CPA	<b>Approve (9-0)</b>
8(q) Administrative Budget	<b>\$150,000</b>	CPA	<b>Approve (9-0)</b>

*Article 8(a) Archives and Records Management/Conservation \$20,000* – This request builds upon the previous 5-year project for conservation and preservation of a backlog of historic municipal documents and records. This is the first year request of an anticipated 3-year cycle that will build upon record accessibility through the electronic portal and will address smaller collections of items requiring less conservation. It will also focus on technology upgrades to meet the increased demand for web access to documents and materials via the Lexington Heritage portal and Lexington's digital archives. This FY2014 request places emphasis on microfilming of bulky permanent records requiring permanent retention.

*Article 8(b) CPA Conservation Restriction Enforcement Funds \$25,000* – These funds will be used to secure the required conservation restrictions on the five parcels acquired with CPA funds pursuant to the Community Preservation Act (CPA). They will also be used to pay a non-profit organization to hold, monitor, and enforce the conservation restriction on each parcel, such funding allowed pursuant to Section 12 of the CPA statute. The five parcels to be restricted are: Goodwin properties, land off Cedar Street (9.5 acres); land off Hartwell Avenue (10.7 acres); Leary Land, 116 Vine Street (14 acres); Cotton Farm, 121 Marrett Road (4.2 acres); and Wright Farm, 241 Grove Street (12.6 acres). The Busa property is not in this list because the final designation of sections of the property to the CPA categories of open space and affordable housing is pending.

*Article 8(c) Cary Memorial Building Upgrades \$550,000* – This request is to fund complete design development and construction documents for an estimated \$8,000,000 renovation to the Cary Memorial Building. A comprehensive review of building systems funded by 2010 ATM appropriation found the building, though well maintained, needed accessibility, support spaces, structural, electrical, mechanical, plumbing, stage, and acoustical and audiovisual improvements. However, at the 2012 Annual meeting, an appropriation request for \$550,000 to fund design, development and construction documents for an estimated \$7,700,000 project was reduced to \$75,000 at the request of the Board of Selectmen due to concerns about the project's scope and cost. The \$75,000 was appropriated to support development of a partial schematic design, to evaluate the recommendations of the original evaluation study, to gather public input and make recommendations on the appropriate scope and timing of work. An ad hoc committee was created and issued a final report to the Board of Selectmen on January 18, 2013. The report recommends a design and construction document budget of \$550,000, with a subsequent authorization for implementation of almost all recommendations in the original review, currently estimated to cost \$8,537,000. The project would implement comprehensive life safety improvements, building system improvements and improve usability. The increase in project cost from \$7,700,000 to \$8,000,000 estimated in 2012 is due to inflation of construction costs.

*Article 8(d) Muzzey Senior Center Upgrade (Phase 3) \$526,818* – The Town has concluded the purchase of 33 Marrett Road, and the programs currently offered at the Muzzey Senior Center are expected to transition to that location. Previously planned upgrades to the Muzzey Senior Center will not go forward and the Committee recommends that this item be indefinitely postponed.

*Article 8(e) Visitor Center (Design Phase) \$68,950* – The Community Preservation Committee indefinitely postponed action on this project because the Board of Selectmen did not include the municipal share of funding in its final financing plan for FY2014. The Committee recommends that this item be indefinitely postponed.

*Article 8(f) Park and Playground Improvements \$147,500* – This is a multi-year capital improvement program for the Town's parks and playgrounds. This Recreation Committee request would fund the rehabilitation of the rubber playground safety surface at the Lincoln Park Playground located on Lincoln Street (\$70,000), and the purchase and installation of equipment for the skate park located at the Center playfields on Worthen Road (\$77,500).

*Article 8(g) Park Improvements - Athletic Fields \$65,000* – This is an ongoing multi-year capital program to address safety and playability concerns and to provide adequate and safe field conditions for neighborhood families and recreation and school programs. In FY2014 the funds will be used to renovate the baseball field at Sutherland Park. Sutherland Park will receive a new backstop, player benches, and trash receptacles. The infield of the baseball field will be reconstructed adding proper drainage and creating a safer play surface.

*Article 8(h) Lincoln Field Improvements \$150,000* – This project represents partial funding of the first phase of a three-phase capital improvement program to replace the synthetic turf at Lincoln Park. An amendment to the CPA statute in 2012 allows CPA money to be appropriated for some of this work, but specifically excludes the acquisition of the synthetic turf itself. Therefore, this project request is only for the design, drainage and site preparation work associated with the turf replacement. The Recreation Department is applying for \$150,000 in CPA funds for this preparatory work, and the remaining \$415,000 will be sought through a combination of tax levy funds and Recreation Enterprise monies. Work conducted in this first phase will be on Field #1.

*Article 8(i) Lexington Center Pocket Park Design and Ancillary Costs \$21,500* – The Lexington Center Pocket Park Design Project is a two-phased proposal to convert an underutilized pedestrian alley between 1761 and 1775 Massachusetts Avenue (the "Bank of America" alley) into a small linear public park. The first phase of funding will be to develop a cohesive design intended to transform the current space into an attractive tiny park that enhances the historic charm of Lexington Center and offers a new, welcoming place for people to socialize. The design phase will also cover the necessary legal work to formalize

agreements with existing property owners who are amenable to the idea. A Phase II request, envisioned for FY2015, will be for construction funding to implement the design developed in Phase I.

*Article 8(j) Merriam Hill Preservation Project \$3,000* – This is a request from the Lexington Historical Commission (LHC). The LHC is charged with the preservation, protection, and development of the historical and archeological assets of the town. The Commission maintains an inventory of buildings, areas, and sites of architectural and/or historical importance in Lexington, known as the Comprehensive Cultural Resources Survey of Lexington (Inventory). If an owner requests a demolition permit for a house or other building listed on the Inventory, the owner is required to participate in a hearing, administered by the LHC under the Demolition Delay By-law. If, after the hearing, the LHC determines that the building is preferably preserved, a 12-month delay period is imposed. The delay period provides a window of opportunity to consider other alternatives to the demolition of the building. The demolition cannot be delayed indefinitely.

The requested funds would be spent to survey Merriam Hill to determine if homes in this historic area have been mistakenly left off the Inventory. The request comes because of recent events. A Merriam Hill house, which was not on the Inventory but, in the opinions of many neighborhood residents, should have been, was demolished without the Town benefiting from a hearing under the Demolition Delay By-law. Also, within the last two years, the LHC learned of two other houses wrongly left off the Inventory. The surveying of the Merriam Hill neighborhood that identified homes for inclusion in the Inventory was done largely in the 1970's and 1980's. Since then, funds appropriated for Inventory-related projects have been used to survey other Lexington neighborhoods of historic value, making Inventory information accessible on-line, and correcting and amending information already in the Inventory.

In the wake of the demolition and the recognition that the Inventory may be incomplete, the Merriam Hill Association, asked the LHC to undertake this project to prevent the premature loss of any other architecturally and historically significant buildings. The project would involve a preliminary study by a qualified professional consultant of all unlisted homes in the Merriam Hill neighborhood to identify possible houses for further in-depth study and possible addition to the Inventory, based on standards articulated by the Massachusetts Historical Commission, and with notice to homeowners. The Merriam Hill Association will also notify all property owners within its jurisdiction that this project is underway. As this is a preservation project that benefits the entire town, the LHC has requested support from the CPC. Additional funds of \$500 will come from the Merriam Hill Association to support the project.

We note that the Capital Expenditures Committee has recommended that the LHC request CPC funds in FY2015, as perhaps the first of several annual requests (1) to fully evaluate and document all pending "priority" items on the Inventory and (2) to ensure that no other buildings or neighborhoods have been overlooked.

*Article 8(k) Moon Hill National Register Nomination Project \$6,000* – The goal of this project is to successfully list the Six Moon Hill Historic District neighborhood, one of the Town's most significant clusters of modern homes, on the National Register of Historic Places. The existence of comprehensive recognition for Lexington mid-century modern architecture and neighborhoods will publicize and promote the Town's vision for the quality of its neighborhoods and ensure its diversity of historical resources. The listing of Six Moon Hill on the National Register of Historic Places will encourage preservation of the documented resources for generations to come. The total cost of the project will be \$8,000. The remaining \$2,000 of the total project cost will be provided by a grant from the Moon Hill Association.

*Article 8(l) Greeley Village Front Doors \$172,734* – This request by the Lexington Housing Authority proposes the replacement of 25 forty-year old front entrance doors, sidelights, and deteriorated flooring at Greeley Village. Greeley Village is an elderly/young disabled low income public housing apartment complex with 100 apartments. The existing metal front entrance doors are deteriorating and have outlived their life expectancy. The new doors will have windows and screened sidelights so residents will be able to see if someone is entering or exiting. Currently, many of the doors are solid with no sidelights, creating

a potential safety issue. Also, opening and closing of the deteriorated doors often presents difficulties for the residents. This preservation project will add another level of security and safety to Greeley Village. The full cost of the project is estimated at \$190,734. The Lexington Housing Authority applied for and was awarded a commitment of \$18,000 by the Department of Housing and Community Development (DHCD) for funding assistance. This reduced the project cost to \$172,734, the amount being requested in FY2014 CPA funds.

*Article 8(m) LexHAB Set-Aside Funds for Development of Community Housing \$450,000* – LexHAB seeks \$450,000 in Set-Aside funds in FY2014 for the development of community housing in Lexington. In years past, Set-Aside funds have been used for the *acquisition* of affordable housing, but in FY2014, the CPC stipulated that LexHAB's grant of CPA funds must be used for *creation* of housing at either the Leary or Busa sites. The units that LexHAB builds will be subject to specific standards set in place by the CPC and agreed upon by LexHAB and the Board of Selectmen. All units created (and acquired) with CPA funds will be protected by affordable housing deed restrictions, and will become part of the Town's Subsidized Housing Inventory (SHI). This is the third year that LexHAB has requested Set-Aside funds for affordable housing acquisition/creation. CPA funding approved for FY2012 was used to purchase a home at 1 Wilson Road, which is now rented. Approximately \$85,000 of that appropriation remains unspent, as does the entire FY2013 appropriation of \$450,000. In light of this, the CPC imposed the conditions described above for the use of FY2014 funding. Funds that are not expended in FY2014 may be carried over and used for affordable housing creation the following year, subject to the same restrictions.

*Article 8(n) ACROSS Lexington Pedestrian/Bicycle Route System \$5,000* – ACROSS Lexington (Accessing Conservation land, Recreation areas, Open space, Schools and Streets in Lexington) is a proposed 40-mile network of pedestrian and bicycle routes utilizing existing public ways. Implemented by the Greenways Corridor Committee, its purpose is to link many parts of the Town of Lexington through existing conservation trails, the Minuteman Bikeway, and sidewalks. The proposed project will provide CPA funds for the purchase and installation of signs, signposts, and hardware for marking the ACROSS Lexington network. In addition to this funding request for route marking materials, additional funds from the tax levy (\$875) are also sought and will be used for maps, brochures, and other project components that are not CPA-eligible.

*Article 8(o) Buckman Tavern Restoration and Renovation \$650,000* – This request is made by the Lexington Historical Society for the renovation and restoration of Buckman Tavern, a National Historic Landmark. The scope of work includes repairing the historic fabric of the building, making it handicapped accessible on both floors, making it compliant with current building codes by installing new wiring throughout the building to meet current code requirements, climate control features, and a fire suppression system. Accessibility improvements will include two accessible entrances, installation of a lift to the second floor, and internal modifications made to accommodate wheelchairs without impairing historic fabric. The project will also include window and door restoration, improved site drainage, masonry and plaster repairs, and internal and external painting on this 18<sup>th</sup> century building. Buckman Tavern is owned by the Town of Lexington and is operated by the Historical Society under a long-term lease with the Town. All improvements proposed as part of this project will be approved by the Town through the Public Facilities Department. The total project cost of the restoration is \$950,000. The Historical Society is seeking \$650,000 in CPA funds, and the remaining \$300,000 will be raised from private sources.

*Article 8(p) Wright Farm Debt Service \$36,875* – At the 2012 Annual Town Meeting, voters approved the \$3,072,000 acquisition of the Wright Farm with CPA funding; authorized the Town to borrow \$2.95 million of the purchase price; and appropriated \$37,000 in CPA funds for short term debt service and issuance costs. On February 6, 2013, the Town sold a one-year, \$2.95 million bond anticipation note (BAN) that will come due in February of 2014. The BAN's issuance costs, anticipated to be approximately \$9,000, were paid with the FY2013 funds. However, the BAN's interest costs, which come due in February 2014, will be paid in FY2014 instead of FY2013. Therefore, unspent funds from the FY2013 appropriation will be returned to the CPC's Undesignated Fund Balance at year's end, and the interest expense

on the note, \$36,875, is now requested in CPA funds for FY2014. When the \$2.95 million BAN comes due in 2014, it will be converted to a long-term bond with term and interest rate to be determined.

*Article 8(q) Administrative Budget \$150,000* – The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the Community Preservation Committee. The Committee is allowed to use this money to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. Five percent of anticipated FY2014 revenue from the surcharge and the State supplemental match is \$232,648. However, as in past years, the CPC is only requesting an appropriation of \$150,000. This money will be used to fund the Committee’s part-time Administrative Assistant, membership dues for the non-profit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, and land planning, appraisals, and legal fees for open space proposed to be acquired using CPA funds. This year the administrative funds will also be used to update the Open Space and Recreation Plan for the Town. With a project cost of \$30,000, the update will be used to evaluate future CPA needs in the areas of open space and recreational resources.

**The Committee recommends approval of all items in this request (9-0) except 8(c), 8(d), and 8(e).**

<b>Article 9: Appropriate for Recreation Capital Projects</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	\$261,750 \$150,000 \$228,250 <b>\$640,000</b>	<b>Recreation EF CPA GF Debt</b>	<b>Approve (9-0) See Article 8(h)</b>

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
9(a) Pine Meadow Equipment	<b>\$75,000</b>	Rec. EF	<b>Approve (9-0)</b>
9(b) Lincoln Park Field Improvements	\$186,750 \$150,000 \$228,250 <b>\$565,000</b>	Rec. EF CPA GF Debt	<b>See Article 8(h)</b>

*9(a) Pine Meadow Equipment* – XI-22: The Recreation Committee requests \$75,000 to dredge the lower irrigation pond at the Pine Meadows Golf Course which has not been done in 15 years and is creating issues with capacity and increased maintenance costs.

*9(b) Lincoln Park Field Improvements* – XI-7: This item is a duplicate of Article 8(h). We anticipate that it will be considered under Article 8 and our discussion can be found there.

**The Committee recommends approval of this request (9-0).**

<b>Article 10: Appropriate for Municipal Capital Projects and Equipment</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$10,248,238</b>	<i>See below</i>	<b>Approve (9-0) except 10(h)</b>

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
10(a) Fire Pumper Replacement	\$445,565 \$39,435 <b>\$485,000</b>	Tax Levy Free Cash	<b>Approve (9-0)</b>
10(b) Cary Memorial Library RFID Conversion Project	<b>\$124,000</b>	Free Cash	<b>Approve (9-0)</b>
10(c) Head End Equipment Replacement	<b>\$60,000</b>	Free Cash	<b>Approve (9-0)</b>
10(d) MIS Technology Improvement Program	<b>\$160,000</b>	Tax Levy	<b>Approve (9-0)</b>
10(e) Network Redundancy and Improvement Plan	<b>\$36,000</b>	Free Cash	<b>Approve (9-0)</b>
10(f) Replace Townwide Telephone Systems	<b>\$146,000</b>	Tax Levy	<b>Approve (9-0)</b>
10(g) Townwide Electronic Document Management System	<b>\$60,000</b>	Free Cash	<b>Approve (9-0)</b>
10(h) Hastings Park Gazebo Rehabilitation/Design and Engineering	<b>\$15,000</b>	Tax Levy	<b>Approve (8-0-1)</b>
10(i) Street Improvements and Easements	\$1,890,074 \$924,164 <b>\$2,814,238</b>	Tax Levy Ch. 90 Aid	<b>Approve (9-0)</b>
10(j) Townwide Culvert Replacement	<b>\$390,000</b>	Tax Levy	<b>Approve (9-0)</b>
10(k) Storm Drainage Improvements and NPDES Compliance	\$155,155 \$184,845 <b>\$340,000</b>	Tax Levy GF Debt	<b>Approve (9-0)</b>
10(l) DPW Equipment Replacement	\$145,500 \$349,000 \$145,500 \$145,500 <b>\$640,000</b>	Tax Levy GF Debt Water EF (Debt) Wastewater EF (Debt)	<b>Approve (9-0)</b>
10(m) Hastings Park Irrigation	<b>\$73,000</b>	Free Cash	<b>Approve (9-0)</b>
10(n) Hydrant Replacement Program	\$50,000 \$50,000 <b>\$100,000</b>	Free Cash Water RE	<b>Approve (9-0)</b>
10(o) Comprehensive Watershed Stormwater Management Study and Implementation	<b>\$390,000</b>	GF Debt	<b>Approve (9-0)</b>
10(p) Townwide Signalization Improvements	<b>\$125,000</b>	Free Cash	<b>Approve (9-0)</b>
10(q) Hartwell Avenue Infrastructure	<b>\$800,000</b>	GF Debt	<b>Approve (9-0)</b>
10(r) Sidewalk Improvements and Easements	<b>\$400,000</b>	GF Debt	<b>Approve (9-0)</b>
10(s) Concord Avenue Sidewalk Construction and Easements	\$2,904,000 \$96,000 <b>\$3,000,000</b>	GF Debt TMSF	<b>Approve (9-0)</b>

The items in this request are briefly summarized below with a reference to the page where the request is summarized in the Brown Book.

*10(a) Fire Pumper Replacement – XI-7:* Replace a 2010 rescue pumper plagued with mechanical issues. If remedy is received from manufacturer, this appropriation will not be used.

*10(b) Cary Memorial Library RFID Conversion Project – XI-18:* To convert to industry standard for tagging and tracking library materials to enhance workflow.

*10(c) Head End Equipment Replacement – Phase IV – XI-18:* To replace email spam filtering device.

*10(d) MIS Technology Improvement Program – Phase II – XI-18:* Continue to purchase and install storage area network and blade server technology for server maintenance and management.

*10(e) Network Redundancy and Improvement Plan – XI-18:* To provide wireless service to the Town Hall, Police department and Public Services buildings.

*10(f) Replace Townwide Telephone Systems – Phase II – XI-18:* Replace phone systems that support the School Administration Building, Fire Headquarters, East Lexington Fire Station and Human Services department with VoIP technology.

*10(g) Townwide Electronic Document Management System – Phase III – XI-18:* Final phase of a project to establish an enterprise wide document management system which provides a searchable database of town and school documents.

*10(h) Hastings Park Gazebo Rehabilitation/Design and Engineering – XI-20:* To identify areas of improvement, design necessary repairs and make the Gazebo ADA compliant.

*10(i) Street Improvements and Easements – XI-19:* Routine maintenance.

*10(j) Townwide Culvert Replacement – XI-20:* To replace the Concord Avenue culvert near the Belmont town line to allow proper storm water flow.

*10(k) Storm Drainage Improvements and NPDES Compliance – XI-5:* Annual request to replace and supplement existing drainage infrastructure.

*10(l) DPW Equipment Replacement – XI-5:* Equipment to be replaced: JCB Backhoe – Water/Sewer Division; F450 with utility body, lift gate and plow – Water/Sewer Division; 2 Kubota Tractors with attachments – Cemetery Division; Toro Infield machine with attachments – Parks Division; Heavy Duty 6-wheel dump with plow, under-scraper and sanding unit – Highway Division.

*10(m) Hastings Park Irrigation – XI-21:* Installation of an automated in ground irrigation system at Mass Ave and Worthen Road.

*10(n) Hydrant Replacement Program – XI-21:* Routine maintenance.

*10(o) Comprehensive Watershed Stormwater Management Study and Implementation – XI-6:* For design of priority projects identified in previous studies (Charles River and Shawsheen Watersheds).

*10(p) Townwide Signalization Improvements – XI-21:* To update traffic and pedestrian signals potentially at Hartwell Ave/the Bikeway and Concord Ave/Waltham Street.

*10(q) Hartwell Avenue Infrastructure - Engineering and Easements – XI-6-7:* \$600,000 for Phase 1 design and construction plan for Hartwell Ave from Bedford Street, through the Maguire Road intersection and over Kiln Brook to accommodate increased traffic. Approval and funding by the Massachusetts Dept. of Transportation will be required for the improvements to move forward as it is a state highway. This request also includes \$200,000 for construction of a sidewalk on Hartwell Ave from the Minuteman Bikeway to Bedford Street (previously included in the discussion of Article 10(r) in the Brown Book).

*10(r) Sidewalk Improvements and Easements – XI-7:* Routine maintenance for Town sidewalks (Article 10(q) now includes funding for the Hartwell Ave. sidewalk).

*10(s) Concord Avenue Sidewalk Construction and Easements – XI-7:* To fund the construction of sidewalks along Concord Ave from Spring Street to Waltham Street, a quite challenging stretch of road from a topography perspective.

**The Committee recommends approval of this request (9-0), except 10(h) which the Committee recommends for approval (8-0-1).**

<b>Article 11: Appropriate for Water System Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	\$200,000 \$700,000 <b>\$900,000</b>	<b>Water EF (Debt) Water Retained Earnings</b>	<b>Approve (9-0)</b>

This Article addresses proposed capital expenditures to be made during FY2014 as part of a continuing program to upgrade and keep current the assets of the Water Enterprise Fund. For general background on the enterprise funds, and the relationship between the budget process and the water rate setting process, please see Appendix B and the discussion under Article 5.

A total of \$900,000 is requested this year to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-10). Two additional capital appropriations will be requested under Article 10 (Municipal Capital): \$145,500 in water fund debt to cover half the cost to replace a Ford F450 pickup truck with a utility body and a backhoe used by the water and sewer divisions that have reached their end of life, *see* Article 10(l); and \$50,000 from the water fund's retained earnings to fund half the cost of an ongoing hydrant replacement program shared 50-50 with the General Fund, *see* Article 10(n).

The costs of this year's system improvements will be funded by a combination of borrowing (\$200,000) and retained earnings of the Water Enterprise Fund (\$700,000). The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Water Enterprise Fund in FY2014 and in future years until the debt is retired (see Brown Book, p. XI-10, Table II), and will be included each year as a component of the water rates.

Capital appropriations for similar purposes have been made in most years (except for FY2006 and FY2012, when engineering studies were not ready), as illustrated in the table below. The goal is to keep the system current so the Town can assure dependable high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection as well as minimization of water main breaks.

**Water Capital Improvements History**

<b>Fiscal Year</b>	<b>Purpose</b>	<b>Cash</b>	<b>Borrowing</b>	<b>Total</b>
<b>2003</b>	Water Dist. Improvements	\$340,000	\$560,000	\$900,000
<b>2004</b>	Water Dist. Improvements	\$400,000	\$500,000	\$900,000
<b>2005</b>	Water Dist. Improvements	\$400,000	\$450,000	\$850,000
<b>2006</b>	None	\$0	\$0	\$0
<b>2007</b>	Water Dist. Improvements	\$0	\$900,000	\$1,150,000
	Water Meters	\$0	\$250,000	
<b>2008</b>	Water Dist. Improvements	\$0	\$1,800,000	\$1,800,000
<b>2009</b>	Water Dist. Improvements	\$0	\$1,800,000	\$1,800,000
<b>2010</b>	Water Dist. Improvements	\$0	\$900,000	\$1,019,000
	Equipment	\$0	\$119,000	



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<b>2011</b>	Water Dist. Improvements	\$0	\$900,000	
	Water Tank Rehab	\$0	\$160,000	\$1,060,000
<b>2012</b>	None	\$0	\$0	\$0
<b>2013</b>	Water Dist. Improvements	\$0	\$900,000	\$900,000
<b>2014 (rec)</b>	Water Dist. Improvements	\$700,000	\$200,000	\$900,000

Prior to FY2006, as shown in the table above, capital expenditures for water distribution and related improvements were funded by a combination of enterprise fund cash capital, which was raised in the rates, and borrowing. Subsequently, there was a transition to funding these ongoing improvements exclusively with debt. While the transition to debt financing in the enterprise funds mitigated the need for rate increases early on, that change, together with the fund's allocated contribution to the debt service for the new DPW facility, has steadily increased the annual debt service costs of the sewer enterprise fund, both in dollar and percentage terms, as illustrated below.

## **Growth in Water Fund Debt Service Costs**

<b>Fiscal Year</b>	<b>Water Debt Service</b>	<b>Total Budget</b>	<b>Debt Service Ratio</b>
<b>2006</b>	\$213,150	\$6,237,235	3.4%
<b>2007</b>	\$358,301	\$6,514,502	5.5%
<b>2008</b>	\$425,565	\$6,469,388	6.6%
<b>2009</b>	\$757,247	\$7,190,800	10.5%
<b>2010</b>	\$1,074,551	\$7,241,304	14.8%
<b>2011</b>	\$1,137,075	\$7,619,919	14.9%
<b>2012</b>	\$1,258,968	\$8,039,413	15.7%
<b>2013</b>	\$1,299,091	\$8,124,846	16.0%
<b>2014</b>	\$1,260,655	\$8,707,219	14.5%

Recent borrowings, including the water fund's 17% contribution to the financing of the new DPW facility, have tripled the annual debt service costs since FY2008 to a level that represents a significant portion of the overall Water Enterprise Fund operating budget. Future borrowings for water distribution improvements will continue to increase the annual debt service costs of the Water Enterprise Fund until a new equilibrium between issuance and retirement of debt is reached.

The Committee has previously noted that judicious use of some of the fund's accumulated retained earnings could help defray the impact of these growing capital costs and help to maintain long-term rate stability. We are delighted to see that this recommendation has been adopted, at least for the current fiscal year, with a substantial cash contribution from retained earnings to the annual water distribution system improvements cost. Even if this cash contribution cannot be sustained in future years, it will nevertheless help to moderate debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

**The Committee recommends approval of this request (9-0).**

<b>Article 12: Appropriate for Wastewater System Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	\$1,100,000 \$200,000 <b>\$1,300,000</b>	<b>Wastewater EF (Debt)</b> <b>Water Retained Earnings</b>	<b>Approve (9-0)</b>

This Article addresses proposed capital expenditures to be made during FY2014 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the Enterprise Funds, and the relationship between the budget process and the water rate-setting process, please see Appendix B and the discussion under Article 5.

A total of \$1,300,000 is requested this year: \$1,200,000 as part of a multi-year plan to rehabilitate sanitary sewer infrastructure, particularly in remote areas, including brook channels, where poor soil conditions lead to storm water infiltration; and \$100,000 as part of an ongoing program to upgrade Lexington's ten sewer pumping stations. The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-11-12). An additional appropriation of \$145,500 in wastewater fund debt will be requested under Article 10(l) (Municipal Capital) to cover half the cost to replace an F450 pickup truck with a utility body and a backhoe used by the water and sewer divisions that have reached their end of life.

The costs of this year's system improvements will be funded by a combination of borrowing (\$1,100,000) and retained earnings of the Water Enterprise Fund (\$200,000). The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Water Enterprise Fund in FY2014 and in future years until the debt is retired (see Brown Book, p. XI-11, Table III), and will be included each year as a component of the wastewater rates. Part of the funding may come from MWRA grants or loans.

Capital appropriations for similar purposes have been made in most years (except for FY2006, when engineering studies were not ready, and FY2011, when only pump station upgrades were performed), as illustrated in the table below.

#### **Wastewater Capital Improvements History**

<b>Fiscal Year</b>	<b>Purpose</b>	<b>Cash</b>	<b>Borrowing</b>	<b>Total</b>
<b>2003</b>	Storm Sewer Improvements	\$100,000	\$0	\$100,000
<b>2004</b>	San./Storm Sewer Improvements	\$225,000	\$0	\$225,000
<b>2005</b>	San./Storm Sewer Improvements	\$750,000	\$0	\$750,000
<b>2006</b>	None	\$0	\$0	\$0
<b>2007</b>	Sewer Improvements	\$0	\$300,000	\$0
	Water Meters	\$0	\$250,000	\$550,000
<b>2008</b>	Sewer Improvements	\$0	\$1,300,000	\$1,300,000
<b>2009</b>	Sewer Improvements	\$0	\$1,300,000	\$1,300,000
<b>2010</b>	Sewer Improvements	\$0	\$1,300,000	
	Equipment	\$0	\$263,000	\$1,563,000
<b>2011</b>	Pump Station Upgrades	\$0	\$100,000	\$100,000
<b>2012</b>	Sewer Improvements	\$300,000	\$1,000,000	\$1,300,000
<b>2013</b>	Sewer Impts., Pump Sta. Upgrades	\$0	\$1,300,000	\$1,300,000
<b>2014 (rec)</b>	Sewer Impts., Pump Sta. Upgrades	\$200,000	\$1,100,000	\$1,300,000

Prior to FY2006, as shown in the table above, capital expenditures for sewer distribution improvements were funded primarily by enterprise-fund cash capital. Since then, there has been a transition to funding

these ongoing improvements primarily with debt. While the transition to debt financing in the enterprise funds mitigated the need for rate increases early on, that change, together with the fund's allocated contribution to the debt service for the new DPW facility, has steadily increased the annual debt-service costs of the sewer enterprise fund, both in dollar and percentage terms, as illustrated below.

**Growth in Wastewater Fund Debt Service**

<b>Fiscal Year</b>	<b>Sewer Debt Service</b>	<b>Total Budget</b>	<b>Debt Service Ratio</b>
<b>2006</b>	\$275,950	\$7,084,802	3.9%
<b>2007</b>	\$333,899	\$7,440,920	4.5%
<b>2008</b>	\$439,792	\$7,355,479	6.0%
<b>2009</b>	\$488,135	\$7,643,649	6.4%
<b>2010</b>	\$575,357	\$8,083,478	7.1%
<b>2011</b>	\$791,777	\$8,315,556	9.5%
<b>2012</b>	\$879,713	\$8,934,624	9.8%
<b>2013</b>	\$956,855	\$9,282,077	10.3%
<b>2014</b>	\$1,131,673	\$9,257,354	12.2%

Recent borrowings, including the wastewater fund's 7% contribution to the financing of the new DPW facility, have tripled the annual debt service costs since FY2006 to a level that represents a significant portion of the overall Water Enterprise Fund operating budget. Future borrowings for water distribution improvements will continue to increase the annual debt service costs of the Water Enterprise Fund until a new equilibrium between issuance and retirement of debt is reached.

The Committee has previously noted that judicious use of some of the fund's accumulated retained earnings could help defray the impact of these growing capital costs and help to maintain long-term rate stability. A contribution of \$300,000 from retained earnings was made in FY2012, and a similar contribution of \$200,000 is again proposed from retained earnings this year. We are delighted to see that this recommendation again being adopted, at least for the current fiscal year. Even if this cash contribution cannot be sustained in future years, it will nevertheless help to moderate debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

**The Committee recommends approval of this request (9-0).**

<b>Article 13: Appropriate for School Capital Projects and Equipment</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$1,524,031</b>	<i>See below</i>	<b>Approve (9-0)</b>

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
13(a) System-Wide Technology	<b>\$728,000</b>	GF Debt Free Cash Tax Levy	<b>Approve (9-0)</b>
	<b>\$39,435</b>		
	<b>\$445,565</b>		
	<b>\$1,213,000</b>		
13(b) System-Wide Classroom Furniture	\$201,387	GF Debt Free Cash Prior Year Balances	<b>Approve (9-0)</b>
	\$37,065		
	\$42,579		
	<b>\$281,031</b>		

An informative and detailed description of these requests, approved by the School Committee and submitted for Town Meeting approval, can be found in the Budget (Brown) Book Section XI (Capital) (School Projects, pages XI-9, XI-10). Additionally, the TMMA Warrant Information Report contains a comprehensive review of Article 13.

Item 13(a) is a request to continue a multi-phased plan designed to purchase equipment described in detail in the School Department's long range technology plan. This technology plan includes (1) replacing the oldest desktops, laptops, printers and peripherals, and (2) upgrading network equipment and adding workstations at the high school and middle schools to get closer to the state average number of computers for student use. Item 13(a) also includes the expansion of a mobile technology pilot originally funded by LEF, the installation of a managed wireless network in Bridge and Bowman as part the renovation project and installation of interactive whiteboards representing the second stage of a plan to equip all classrooms grade 3-12 by FY2015.

Item 13(b) is an annual request for the replacement of furniture that has reached the end of its useful life. The request includes replacement of workstations, office furniture, bookshelves, carts and miscellaneous items.

**The Committee recommends approval of this request (9-0).**

<b>Article 14: Appropriate for Public Facilities Capital Projects</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$1,539,454</b>	<b>Free Cash</b>	<b>Approve (9-0)</b>
	<b>\$748,940</b>	<b>GF Debt</b>	
	<b>\$100,000</b>	<b>CPA</b>	
	<b>\$5,060</b>	<b>Prior Year</b>	
	<b>\$2,393,454</b>	<b>Balances</b>	

The items in this request are briefly summarized below with a reference to the page where the request is described in the Brown Book.

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
14(a) Municipal Building Envelope and Systems	<b>\$173,954</b>	Tax Levy	<b>Approve (9-0)</b>
14(b) School Building Flooring Program	<b>\$125,000</b>	Free Cash	<b>Approve (9-0)</b>
14(c) School Interior Painting Program	<b>\$150,000</b>	Free Cash	<b>Approve (9-0)</b>
14(d) School Window Treatments Extraordinary Repair	<b>\$50,000</b>	Free Cash	<b>Approve (9-0)</b>
14(e) School Paving Program	<b>\$150,000</b>	Free Cash	<b>Approve (9-0)</b>
14(f) Lexington High School Overcrowding – Phase 3 Engineering and Improvements	\$356,940 \$5,060 <b>\$362,000</b>	GF Debt Prior Year Balances	<b>Approve (9-0)</b>
14(g) School Security Standardization	<b>\$370,000</b>	Free Cash	<b>Approve (9-0)</b>
14(h) Installed Wall Units – Air Conditioner	<b>\$56,000</b>	Free Cash	<b>Approve (9-0)</b>
14(i) School Building Envelope and Systems Program	<b>\$235,000</b>	Free Cash	<b>Approve (9-0)</b>
14(j) Clarke Middle School Bus Loop	<b>\$35,000</b>	Free Cash	<b>Approve (9-0)</b>
14(k) Hastings School Kitchen Renovation	<b>\$90,000</b>	Free Cash	<b>Approve (9-0)</b>
14(l) Print Shop Renovation	<b>\$312,000</b>	GF Debt	<b>Approve (9-0)</b>

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
14(m) Public Facilities F350 Vehicle	<b>\$80,000</b>	GF Debt	<b>Approve (9-0)</b>
14(n) Public Facilities Bid Documents	<b>\$100,000</b> <b>\$75,000</b>	CPA Cash Free Cash	<b>Approve (9-0)</b>
14(o) School Human Resources Office Renovation	<b>\$29,500</b>	Free Cash	<b>Approve (9-0)</b>

*14(a) Municipal Building Envelope and Systems – XI-15:* part of an on-going request for funds to maintain municipal buildings and systems to avoid safety hazards and support their intended function as public spaces.

*14(b) School Building Flooring Program – XI-8:* a multi-year project that will replace carpet, vinyl tile, and ceramic flooring that are beyond their useful life to ensure that these surfaces are safe and cleanable.

*14(c) School Interior Painting Program – XI-8:* a multi-year project to repaint surfaces on a 7 to 10 year schedule.

*14(d) School Window Treatments Extraordinary Repair – XI-8:* replaces window treatments, the majority of which are unusable horizontal blinds that were installed when the buildings were constructed.

*14(e) School Paving Program – XI-16:* for design and construction to maintain school parking and pedestrian surfaces in a condition for public use. This request will specifically address needs at Fiske due to additional programs and improve ADA compliance at various other schools.

*14(f) Lexington High School Overcrowding – Phase 3 Engineering and Improvements – XI-9:* Lexington High School is overcrowded and enrollment is projected to increase. This is Phase 3 of four phased project intended to equip LHS to handle the influx with improved space utilization and additional classrooms since no significant expansion or replacement is currently planned.

*14(g) School Security Standardization – XI-16:* standardize access control and video security across the elementary schools.

*14(h) Installed Wall Units – Air Conditioner – XI-17:* install for four air conditioning units for the Central Administration lower level professional development/conference areas.

*14(i) School Building Envelope and Systems Program – XI-17:* part of an annual maintenance program to prevent deterioration of school building exteriors and systems.

*14(j) Clarke Middle School Bus Loop – XI-17:* fund a study of the bus loop construction on Stedman Road side as well as the entrance and exits and ultimately identify solutions for the heavy traffic tie-ups that occur.

*14(k) Hastings School Kitchen Renovation – XI-17:* fund needed upgrades to the kitchen at Hastings. It will involve reconfiguring existing space as well incorporate green methods such as composting and recycling.

*14(l) Print Shop Renovation – XI-8:* fund needed improvements to wiring, ventilation, lighting and flooring for the print shop housed in the basement of the Old Harrington or Central Office building.

*14(m) Public Facilities F350 Vehicle – XI-9:* fund the second of two vehicles used by DPW for ground maintenance that are past their useful life.

*14(n) Public Facilities Bid Documents – XI-16:* fund the second year of a multi-year program for professional services to produce design development, construction documents and/or bid administration services. This request now includes \$100,000 for CPA funds to do Design & Engineering work for repurposing the newly acquired buildings at 33 Marrett Road.

*14(o) School Human Resources Office Renovation* – XI-8: redesign and renovate the existing HR office and the Office for the Superintendent of Human Resources.

All of these items are detailed in the FY2014 *Recommended Budget & Financing Plan* (the “Brown Book”), Section XI. Capital.

**The Committee recommends approval of this request (9-0).**

<b>Article 15: Appropriate Bonds And Notes Premiums</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$4,168,632</b>	<b>Bond Premiums</b>	<b>Approve (9-0)</b>

In February, 2013, the Town sold \$48,700,000 in bonds of which \$40,965,000 was for the Bridge, Bowman and Estabrook school projects, approved by the voters as excluded debt last year. The successful bid for the bonds included a premium to the Town of \$5,128,798 of which \$4,168,632 is attributable to debt-excluded projects. The interest rate for the bond is 1.93%.

The Department of Revenue (DOR) has approved a new regulation under which funds from bond premiums attributable to debt-excluded projects may be appropriated directly for projected costs. This directly reduces the debt that must be issued by the amount appropriated, reducing interest charges and the associated tax burden.

The motion for the article will be to appropriate that portion of the premium attributable to excluded debt – less any amounts needed for bond issuance cost – to cover projected costs. It will also require a mirror-image rescission of previous appropriations for debt.

Given the magnitude of the premium associated with the Town’s bond offering and the resulting reduction in interest costs, the Committee strongly encourages the Town to take advantage of this option.

**The Committee recommends approval of this request (9-0).**

<b>Article 16: Accept MGL Chapter 32, Section 101 Supplemental Annual Allowance</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>

This article proposes the acceptance of a local option recently made available under Chapter 32 of the General Laws to increase from \$9,000 to \$12,000 the annual survivor’s allowance that is currently payable by the Lexington Retirement System to the widows of certain deceased Town employees.

Massachusetts G.L. c. 32, §101 provides for the payment by a community’s retirement system of an annual allowance to widows of former public employees who were unable, under the rules applicable at the time of their retirement, to provide for an annual survivor’s allowance and either (a) retired as a result of injuries sustained while in the performance of official duties, or (b) retired for ordinary disability. (Although the statute refers by its terms only to widows, it has been interpreted by the Attorney General to apply to widowers as well.) Prior to 1995, the amount of the allowance was \$3,000 and in 1995 the amount was increased to \$6,000. The benefit is paid monthly and the base amount is adjusted annually by a COLA.

In 2010, the legislature amended the statute to allow communities, by vote of their retirement board and subject to approval of Town Meeting, to adopt a “supplemental” allowance that would bring the total allowance to \$9,000. The supplemental allowance was automatically applied to the state teachers’ and state

employees' retirement systems. The Lexington Retirement Board voted to accept this local option and it was approved at the 2011 Annual Town Meeting.

In 2012, the legislature again amended the statute to allow communities, by vote of their retirement board and subject to approval of Town Meeting, to adopt an alternative "supplemental" allowance that would bring the total allowance to \$12,000. This higher amount was automatically applied to the state teachers' and state employees' retirement systems. The Lexington Retirement Board has voted to accept the local option to increase the allowance from \$9,000 to \$12,000, and recommends its approval by Town Meeting.

Currently, five widows of former Town of Lexington employees receive a Section 101 allowance from the Lexington retirement system and receive no other benefits from the Town. Approving this request would bring the annual cost of the benefit for all current recipients from approximately \$45,000 to \$60,000, an increase of \$15,000. In addition to the five current recipients, there are four other spouses of current retirees who may become eligible in the future to receive this annual allowance. Retirement benefits available to active employees now include alternative provisions for a surviving spouse, so no other potential recipients of a Section 101 allowance are anticipated going forward.

**The Committee recommends approval of this article by a vote of 9-0.**

<b>Article 17: Accept MGL Chapter 32, Section 12(2)(d paragraph 11): Increasing Minimum Monthly Allowance</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>

This article proposes the acceptance of a local option recently made available under Chapter 32 of the General Laws to increase from \$250 to \$500 the minimum monthly survivor benefit payable to the spouses of Town employees who die before retirement. This is a different group of potential beneficiaries from those addressed by Article 16, which applies to the spouses of Town employees who die *after* retirement and for whom no other survivor benefit is available.

G.L. c. 32, §12(2)(d) provides for a monthly benefit to be paid to the spouse or other nominated beneficiary of an employee if the employee has selected a "joint and last survivor allowance" option and the employee dies before retirement. In 2011, the legislature amended the statute to add a new paragraph 11 increasing the minimum monthly benefit from \$250 to \$500 for members of the state teachers' and state employees' retirement system. The amendment also allowed the retirement system of any other political subdivision to adopt a similar increase by majority vote of its retirement board and local legislative body.

The Lexington Retirement Board has voted to accept the local option provided by G.L. c. 32, §12(2)(d ¶11) and recommends its approval by Town Meeting.

At present, this increase of the monthly survivor benefit would affect three widows and result in an additional annual cost to the Retirement System of \$9,000.

**The Committee recommends approval of this request (9-0).**

<b>Article 18: Appropriate to Post Employment Insurance Liability Fund</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$775,000</b>	<b>GF</b>	<b>Approve (9-0)</b>

At the 2012 Annual Town Meeting, \$500,000 was appropriated into the Post Employment Insurance Liability (PEIL) Fund<sup>5</sup>. A proposal to appropriate an additional \$500,000 into the Fund was defeated at the November 2012 Special Town Meeting. As of December 31, 2012, the balance in the Fund was \$2,822,738. In FY2012, the Town received \$465,544 in Medicare Part D reimbursements. The proposal under this article is to appropriate a total of \$775,000 to the PEIL Fund. The funding sources are free cash (\$525,000) and the tax levy (\$250,000).

During the past year, a working group consisting of the Town Manager, the Assistant Town Manager for Business and Finance, representatives from the Appropriation Committee, and a representative from the Board of Selectmen discussed issues in regard to funding of the Town's OPEB liabilities. The members of the working group agree that the Town should annually put monies into the PEIL Fund for the next few decades to prefund the Town's OPEB liabilities. However, they did not reach complete consensus in regard to a long-term funding policy and schedule.

The Town's OPEB liabilities may be affected this year by state legislation. The Commonwealth of Massachusetts "Special Commission to Study Retiree Healthcare and Other Non-Pension Benefits" issued its final report on January 11, 2013. The report recommends legislative changes that would reduce future growth of municipal retiree health care costs primarily by instituting changes in age and years of service needed for retirement. The Town of Lexington OPEB working group is awaiting action by the state legislature on these recommendations and intends to reconvene to discuss long term funding policies for the Town later this year.

The working group and this Committee recommend approval of the request under this article. The requested amount is larger than that appropriated in previous years, but remains below the amount recommended to achieve full funding within 30 years. The increase from \$500,000 to \$775,000 is reasonable and prudent given the revenues projected to be available in FY2014, and the sense that there will be sufficient resources to support all high priority items.

**The Committee recommends approval of this request (9-0).**

<b>Article 19: Rescind Prior Borrowing Authorization</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>None</b>	<b>N/A</b>	<b>Pending</b>

Town staff has informed the Committee to expect a motion under this Article, but no further details were available at the time of publication.

**The Committee has taken no position on this request.**

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<sup>5</sup> Also known as the "Post Retirement Insurance Liability Fund" or the "OPEB trust fund".



<b>Article 20: Establish and Appropriate To and From Specified Stabilization Funds</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	\$950,000 \$1,234,000 \$67,760 <b>\$2,184,000</b>	<b>Free Cash Tax Levy TDM Payments</b>	<b>Approve (9-0)</b>

The State statute authorizing towns to create and maintain a stabilization fund (G.L. c. 40, § 5B) was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes.

Creating these funds, altering their specified purpose, and appropriating into or out of them, requires a two-thirds vote of Town Meeting. Lexington first specified stabilization funds were established at the 2007 Annual Town Meeting. A history and description of these funds can be found in Appendix E.

Each “specified stabilization fund” holds monies for one or more purposes that were specified when the fund was created. This Article is now routinely included on the Warrant to give Town Meeting the opportunity to create new specified stabilization funds, and to appropriate monies into, or out of, such funds.

Appropriations into specified stabilization funds are not normal expenditures, but rather transfers of funds into accounts for specified future uses. Once transferred into a fund, these monies can only be appropriated out of the fund in accordance with the purposes specified at the creation of the fund.

#### **Status of Funds and Appropriation Requests**

The current balance of each fund, the amount currently available for appropriation into each fund, and the amounts proposed to be withdrawn from each fund, are as follows:

<b>Specified Stabilization Fund</b>	<b>Current Balance</b>	<b>Deposit</b>	<b>Withdraw</b>	<b>Warrant Article</b>
Avalon Bay School Enrollment Mitigation S.F.	\$298,837	\$0	\$250,000	<b>4</b>
Center Improvement District S.F.	\$86,112	\$0	\$0	N/A
School Bus Transportation S.F.	\$18	\$0	\$0	N/A
Section 135 Zoning S.F.	\$0	\$0	\$0	N/A
Special Education S.F.	\$1,068,744	\$0	\$0	N/A
Traffic Mitigation S.F.	\$96,557	\$0	\$96,000	<b>10(s)</b>
Transportation Demand Management / Public Transportation S.F.	\$305,561	\$67,760	\$106,000	<b>4</b>
Transportation Management Overlay District S.F.	\$10,724	\$0	\$0	N/A
Capital Projects/Debt Service Reserve/Building Renewal S.F.	\$1,600,768	\$2,184,000	\$1,600,000	<b>20</b>

This Article proposes to appropriate \$2,184,000 into the *Capital Projects/Debt Service Reserve/Building Renewal S.F.*, and also to appropriate \$1,600,000 out of that same fund for the purpose of mitigating the Town’s debt service on “excluded debt”, i.e. debt incurred via a debt exclusion override allowing the Town’s tax levy to exceed the limits under Proposition 2½. We note that this fiscal year’s withdrawal matches the amount that was appropriated into the fund in the prior fiscal year.

The result of the appropriation out of this stabilization fund would be to reduce the total tax levy during FY2014 by \$1,600,000. The amount to be appropriated into the fund would be available in future years, subject to Town Meeting’s approval, to serve the specified purposes of the stabilization fund.

The Town has collected a total of \$67,760 in payments from Shire Pharmaceuticals, Watertown Savings Bank, and Avalon Bay as part of zoning agreements with the Town. This Article requests Town Meeting to appropriate these funds into the Transportation Demand Management/Public Transportation S.F.

The other withdrawals summarized above and not discussed here are covered under the indicated Articles.

**The Committee recommends approval of this request (9-0).**

<b>Article 21: Appropriate to Stabilization Fund</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>None</b>	<b>N/A</b>	<b>IP</b>

As of publication the Selectmen had made no recommendation for appropriation to the Stabilization Fund. We support this decision as a part of the recommended budget and therefore we support the anticipated indefinite postponement of this article. A fund history can be found in the appendices of the Town Manager's *FY2014 Recommended Budget & Financing Plan* pg. C-8.

**The Committee anticipates the indefinite postponement of this request.**

<b>Article 22: Appropriate from Debt Service Stabilization Fund</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$124,057</b>	<b>DSSF</b>	<b>Approve (9-0)</b>

The 2009 Annual Town meeting voted to establish a new specified stabilization fund under G.L. c. 40 Section 5b called the *Debt Service Stabilization Fund* (DSSF). The purpose of the fund is to provide a vehicle to allow the Town to invest bond proceeds beyond the one-year arbitrage limit that would otherwise apply.

An initial appropriation of \$1,739,894 was approved at the 2009 Annual Town Meeting with funds remaining from a set-aside in FY2007 when the monies were initially received. In August 2006, the Town received reimbursement of approximately \$14 million from the Massachusetts School Building Authority for construction projects completed at Clarke and Diamond Middle Schools and Lexington High School. The funds were in excess of the amount necessary to repay a note that was due and were set aside as reimbursement for the exempt costs of the High School project per a directive from the Massachusetts Department of Revenue. The balance (\$1,499,107) is to be drawn down over the life of the bond related to the High School construction project, payable through 2023.

This article requests that \$124,057 be appropriated from the Debt Service Stabilization Fund to offset the debt service in fiscal year 2014 for this same High School construction project.

**The Committee recommends approval of this request (9-0).**

<b>Article 23: Appropriate for Prior Years' Unpaid Bills</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>Unknown</b>	<b>Unknown</b>	<b>Pending</b>

The Committee has not been informed of any need to take action under this Article, but consideration of the Article is normally deferred until the end of Town Meeting to allow for the possibility of a motion if it is deemed necessary.

**The Committee has taken no position on this request.**

<b>Article 24: Amend FY2013 Operating and Enterprise Budgets</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>Unknown</b>	<b>Unknown</b>	<b>Pending</b>

Town staff has informed the Committee to expect a motion under this Article, but no further details were available at the time of publication. Consideration of this Article, which is included in every Annual Town Meeting Warrant, is normally deferred until the end of Town Meeting to allow Town staff to coordinate the final adjustments to the prior year's budget into a single motion. The Committee will report further on this article if the Town staff recommends any changes to the FY2013 operating or enterprise budgets.

**The Committee has taken no position on this request.**

<b>Article 25: Appropriate for Authorized Capital Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>Unknown</b>	<b>Unknown</b>	<b>Pending</b>

The Committee has not been informed of any need to take action under this Article, but consideration of the Article is normally deferred until the end of Town Meeting to allow for the possibility of a motion if it is deemed necessary.

**The Committee has taken no position on this request.**

<b>Article 26: Establish Qualifications for Tax Deferrals</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>

This article proposes to raise the income threshold for participation in the Town's tax deferral program under G.L. c. 59, § 5, Clause 41A from \$60,000 to \$65,000. Under the deferral program, qualifying residents age 65 or older can defer payment of some or all of their property taxes, in an amount up to half the value of their home, until the property is sold or otherwise disposed of. For general background on Clause 41A and other programs offering property tax relief to seniors, please see Appendix D to this Report.<sup>6</sup>

#### **The 41A Program and the Home Rule Amendment**

Under generally applicable state law, the highest income threshold a Town may adopt for participation in the 41A program is the limit established by the DOR each year under the state's Circuit Breaker program

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<sup>6</sup> For more detailed information, an excellent resource is a booklet prepared by the Selectmen's Tax Deferral and Exemption Study Committee entitled *Property Tax Relief for Seniors – Fiscal Year 2013*, which can be found on the Town web site at: <http://www.lexingtonma.gov/finance/assessor.cfm>.

for single filers not a head of household, \$53,000 for calendar year 2012.<sup>7</sup> In 2008, Lexington obtained a home rule amendment allowing it to expand eligibility beyond that permitted under the general laws. The special act permits the Town, by vote of Town Meeting and with the approval of the selectmen, to set its own income limit for deferrals. Town Meeting previously approved increases in the income threshold from \$50,000 to \$51,000 in 2010 and from \$51,000 to \$60,000 in 2012.<sup>8</sup>

### **The Proposed Increase**

This year, the Tax Deferral and Exemption Study Committee (DESC) has recommended that the Town increase the threshold by an additional \$5,000 to \$65,000. The change is intended to help ensure that all persons who have been participating in the program can continue to do so and to allow more residents to participate.

Although the number of households eligible to defer property taxes is now substantial (estimated to be well over 1,000 based on state tax statistics) and might increase slightly with this change, it is unlikely that the change will result in a major growth in the number of deferrals or have a material impact on the Town's finances. Utilization of the program has traditionally been low because senior citizens who have paid off their mortgages have been reluctant to place a new lien on their home and accumulate debt, or to reduce the value of an asset that can be passed on to their heirs.

After previous increases in the income threshold, utilization levels grew only slightly as shown in the table below. An amendment to the general laws that allowed the Town to lower the interest rate from 8% to a floating rate based on Lexington's cost of funds beginning in 2007 may have had a greater impact on the increase in participation but the growth has nevertheless been quite modest. The cumulative total of deferrals outstanding, currently \$695,000, has been relatively stable for several years.

<b>Fiscal Year</b>	<b>Threshold</b>	<b>Interest Rate</b>	<b>Number of Deferrals</b>	<b>Total Deferred</b>	<b>Average Deferral</b>
2001	\$40,000	8.00%	23	\$80,946	\$3,519
2002	\$40,000	8.00%	24	\$91,582	\$3,816
2003	\$40,000	8.00%	21	\$80,459	\$3,831
2004	\$40,000	8.00%	23	\$80,459	\$3,498
2005	\$40,000	8.00%	16	\$74,998	\$4,687
2006	\$40,000	8.00%	16	\$73,964	\$4,623
2007	\$40,000	4.77%	15	\$73,578	\$4,905
2008	\$40,000	4.92%	20	\$101,833	\$5,092
2009	\$40,000	1.66%	26	\$154,380	\$5,938
2010	\$50,000	0.68%	28	\$169,043	\$6,037
2011	\$51,000	0.34%	28	\$177,391	\$6,335
2012	\$60,000	0.26%	29	\$191,458	\$6,602
2013	\$60,000	0.18%	<i>data not yet available</i>		

<sup>7</sup> The Circuit Breaker program allows low and moderate-income residents to claim a refundable credit on their state income tax equal to the amount by which their rent, or their local property taxes plus water and sewer charges, exceed 10% of their total income for the tax year, up to a limit in 2012 of \$1,000. The 2012 Circuit Breaker threshold for a single filer who is a head of household is \$67,000, and the threshold for a married couple filing jointly is \$80,000.

<sup>8</sup> The 2008 Home Rule Amendment also allows the Town to lower the age threshold below 65 and to condition eligibility for deferral by those under 65 on objective criteria of hardship or disability but the Town has not yet made any such changes.

In preparing this year's recommendation, the DESC surveyed a group of "peer" and neighboring towns. Two other towns that have also obtained home rule legislation have established significantly higher income thresholds of \$78,000 (Sudbury) and \$70,000 (Weston). Lincoln and Newton have thresholds of \$60,000. Several other communities surveyed are at or about the \$53,000 maximum threshold now allowed under the general laws (Belmont, Concord, Arlington, Hingham, Needham, Wellesley and Winchester). The rest are at or just under the previous state maximum of \$40,000 (Acton, Bedford, Billerica, Burlington, Natick, Waltham, Watertown, Wayland and Woburn).

The Committee believes that the proposed increase in the threshold from \$60,000 to \$65,000 is a reasonable one that will enable some moderate-income senior homeowners who cannot now take advantage of the deferral program to obtain needed property tax relief. Given the nature of the program, which essentially involves well-secured temporary loans by the Town, the financial risk to the Town is minimal.

**The Committee recommends approval of this request (9-0).**

<b>Article 29: Amend General Bylaws – Contracts and Deeds (Solar Energy Purchasing)</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>None</b>	<b>N/A</b>	<b>Approve (9-0)</b>

This article seeks to change Town bylaws to allow the Town to enter into contracts for the purpose of installing solar energy facilities and purchasing solar electricity for terms up to 20 years. At present, such contracts are limited to terms of not more than 5 years.

Each year the Town uses approximately 9,200,000 kWh at a cost of approximately \$1,700,000. Most of this electricity is generated using fossil fuels that result in the emission of large quantities of greenhouse gasses into the atmosphere. These gasses are one of the main drivers of global climate change. It is therefore desirable to reduce the Town's use of fossil fuels and to reduce the Town's expenditures for electricity.

Approving this article would make it easier for the Town to take advantage of solar photovoltaic technology to generate electricity from sunlight. This would reduce the Town's use of fossil fuels and provide a portion of the Town's electricity needs at a reduced rate.

Preliminary assessments indicate that photovoltaic arrays could be installed on top of a number of municipal and school buildings. It may also be possible to locate facilities on the ground at some locations. This article does not address the specifics of any proposed installation.

In practice, the Town would engage a company specializing in solar-energy development to install and operate photovoltaic arrays at one or more sites. The Town would enter into a contract, known as a Power Purchase Agreement (PPA), that would obligate the Town to pay the company for a certain minimum number of kilowatt hours of electricity at a price specified in the contract. The company would maintain ownership of the equipment it installed and would be responsible for its maintenance. The Town would receive net metering credits from NSTAR at rates above those paid by the Town under the PPA. Under reasonable economic assumptions, this would result in a net reduction in electricity costs for the Town.

Because of the need to amortize the capital investment of creating a new photovoltaic facility, a PPA generally requires a customer to make a commitment of roughly 20 years. This article would allow the Town to make such a commitment, and the Committee agrees that this is a reasonable change in the bylaws.

**The Committee recommends approval of this article (9-0).**

## Appendix A: 3-Year Budget Projection

This projection can help us understand the challenges that Lexington will face if, e.g., revenues do not keep pace with expenses in a “level service” budget. The projection is also an opportunity to obtain a better qualitative as well as quantitative understanding of known trends and cost drivers.

Creating a revenue and expense projection differs in both method and purpose from creating a balanced budget. In a budget, one plans conservatively to avoid both over-spending and under-funding, either of which could necessitate harsh financial remedies during a fiscal year. For a projection, one makes rough estimates about future revenue and expenses regardless of how they might impact the overall fund balance. The resulting figures do not represent actual revenue or spending targets.

We have adopted some key assumptions as the basis for the projection presented herein using limited investigations to establish their plausibility. We note below the most important aspects.

In regard to revenue, we assume that the economy in FY2015 will show modest growth, and that the Town’s revenue stream will recover fully in FY2016 and FY2017. We caution the reader that it is unclear if our detailed assumptions capture this intent. The following points outline the basis of our assumptions regarding revenue changes:

- The tax levy is assumed to grow annually by 2.5% of the previous year’s base and by an added amount for “new growth”. No amounts are included for Proposition 2½ operational overrides.
- New growth (the increase in the tax levy from new construction) in FY2015 is assumed to be 2% less than the average over the 5-year period ending with FY2012 (the reduction is due to the loss of the majority of Shire’s TIF delayed growth), and then, for FY2016 and FY2017, is assumed to increase by 2.5% per year.
- State aid in FY2015 is assumed to be equivalent to the anticipated FY2014 plus and additional \$240,000 due to increased Chapter 70 all-day-kindergarten funding and then, for FY2016 and FY2017, is assumed to increase by 5% annually.
- Available funds include free cash as well as amounts in the Parking Fund and the Cemetery Fund. The amounts in the latter two categories are assumed to be \$335,000 and \$105,000, respectively, and free cash is assumed to total \$4,000,000 for FY2015-17. Included in available funds are transfers from the Debt Service/Capital Projects/Building Renewal (DECAPREN) Stabilization Fund. In FY2015 \$900,000 is anticipated to be used to offset exempt debt payments, and we project that \$900,000 in FY2016, and \$700,000 in FY2017 will be transferred towards capital projects. These assumptions imply that available funds will be lower than the corresponding totals for the previous five fiscal years (FYs 2010 through 2014) which ranged from a low of approximately \$6,200,000 for FY2010 to as high as \$13,300,000 for FY2014. We note that the average available funds for FY2004 through FY2009 were lower than \$3,300,000.
- Revenue offsets include amounts from cherry sheet assessments that are assumed to grow by 3.5% annually, amounts for the Assessors’ overlay (\$750,000 annually in FY2016-2017 and \$900,000 in FY2015, a revaluation year), and \$300,000 that is set aside annually for potential deficits in the snow and ice budget.
- Water and Wastewater Enterprise Fund indirect expenses are now in line with actual costs. Recreation Enterprise Fund indirect expenses are assumed to increase by \$5,000 per year.

The major assumptions that we made regarding expenses are as follows:

- Line items do not include any increases for as of now unsettled cost-of-living adjustments (COLAs) for salaries and wages. Settled contracts for FY2015 only are the LEA at 2.75% and the

Public Facilities Department at 2%. The potential impact of COLAs is summarized below the main projection.

- The Lexington Public Schools personnel costs are assumed to increase by 2% annually for step changes, and 1% for enrollment driven increases.
- The Lexington Public School expenses for items other than special education are assumed to increase by 2% per year. Special education expenses for out-of-district tuition are “net” the State Circuit Breaker reimbursement and are assumed to increase by 5% annually, while the expenses for SPED consultants and out-of-district transportation are assumed to increase by 3% per year.
- Municipal personnel costs are assumed to increase by 1.3% annually for step changes.
- Municipal expenses are assumed to increase by 3% per year.
- The assessment for Lexington’s share of expenses for Minuteman Career and Technical High School is assumed to increase by 4.5% per year.
- Appropriations for current and future pension payments are assumed to follow a schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs.
- Health insurance costs are assumed annual premium increases are 5%.
- Non-exempt debt service costs are assumed to grow 5%, in order to mirror the growth of revenue.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills (assumed to increase by 3%, based on long term contracts), and other expenses (assumed to grow by 3% annually).
- Expenses for cash capital are assumed to include amounts for road and building envelope maintenance (following from overrides) that increase annually by 2.5%, as well as transfers from the DECAPREN Stabilization Fund of \$900,000 in 2016 and 700,000 in FY2017, as well as \$1,700,000 from Free Cash for other capital expenses.
- We assume that no new funds are appropriated into the main Stabilization Fund.
- Other expenses are assumed to include \$45,000 annually for the senior tax work-off program; 500,000 of revenue set aside as a hedge for State or Federal aid reductions; an annual 5% to the FY2014 contribution of \$775,000 to the trust fund for future costs of health insurance for retired employees.
- The offsetting revenues and expenses for Revolving Funds, Grants and Enterprise Fund Operations are projected using the 5-year trend from FY2010-2015. Enterprise capital is projected using the five averages for FY2010-2014.
- No potential expenses for unidentified new programs are built into these projections.

The projection for FY2015 shows a decrease of approximately \$1,000,000 in total general fund revenue. This increase is far below the projected \$6,600,000 increase in the tax levy revenue because we assume that there will be a large decrease in free cash (the major part of the available funds line) from that available for FY2014. We do not expect large amounts of free cash like that certified last November will continue to be certified every fall. Traditionally when additional Free Cash materializes it is not used to fund operating expenses, but is applied to one-time expenses such as capital projects or stabilization funds. Free cash is built by an excess of actual revenues over actual expenditures. This makes it particularly difficult to project, and the uncertainty in the number is significant. The projection shows overall revenue growth of \$7,800,000 in FY2016 and \$7,700,000 in FY2017.

The budget’s bottom line is still being positively affected by favorable GIC health insurance rates, which came into effect in FY2013. Analysis of employee enrollments will have to be conducted to understand

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the duration and magnitude of the future savings. Additionally, it is possible that operating expenses could increase for the Human Services and Recreation departments if the 33 Marrett Road property is purchased and programmatic changes require additions to current staffing levels.

Due to contracts already settled for FY2015, a 1% COLA on salaries and wages in FY2015 would only additionally impact the Lexington Public Schools and municipal salaries and wages lines by \$18,000 and \$205,000 respectively.

COLAs of 1% in FY2016-2017 for the schools, municipal and Public Facilities Department would increase their respective budgets by \$720,000, \$207,000 and \$50,000. COLAs for salaries and wages would increase the total personal expenses and reduce any surpluses for FY2015-2017. We expect that the actual range of uncertainty of this bottom line figure considering the universe of possible factors is very roughly one to three million dollars.

REVENUE SUMMARY	FY2012 Actual	FY2013 Recap	FY2014 Budgeted	FY2015 Projected	FY2016 Projected	FY2017 Projected
<b>Property Tax</b>						
<i>Property Tax Levy</i>	\$122,259,637	\$128,662,664	\$135,418,717	\$140,804,184	\$147,468,557	\$154,378,145
<i>Allowable 2.5% incr.</i>	\$3,056,491	\$3,217,107	\$3,385,468	\$3,520,105	\$3,686,714	\$3,859,454
<i>New Tax Levy Growth</i>	\$3,346,536	\$3,560,545	\$2,000,000	\$3,144,268	\$3,222,874	\$3,303,446
<i>Excess Levy Capacity</i>	\$(46,950)	\$(53,534)	\$-	\$-	\$-	\$-
<b>Tax levy</b>	<b>\$128,615,714</b>	<b>\$135,386,782</b>	<b>\$140,804,184</b>	<b>\$147,468,557</b>	<b>\$154,378,145</b>	<b>\$161,541,045</b>
<b>State Aid</b>	\$8,401,617	\$9,410,134	\$9,410,134	\$9,650,134	\$10,132,641	\$10,639,273
<b>Local Receipts</b>	\$12,340,329	\$10,188,649	\$10,525,979	\$10,683,869	\$10,844,127	\$11,006,789
<b>Available Funds</b>	\$7,975,216	\$7,499,653	\$13,339,510	\$5,426,150	\$5,426,150	\$5,226,150
<b>Revenue Offsets</b>	\$(2,474,521)	\$(1,645,350)	\$(1,953,751)	\$(2,071,470)	\$(1,951,971)	\$(1,983,540)
<b>Enterprise Funds (Indirect)</b>	\$1,564,441	\$1,512,892	\$1,497,405	\$1,502,405	\$1,507,405	\$1,512,405
<b>Total General Fund</b>	<b>\$156,422,796</b>	<b>\$162,352,760</b>	<b>\$173,623,461</b>	<b>\$172,659,644</b>	<b>\$180,336,496</b>	<b>\$187,942,121</b>
<b>Other Revenues</b>						
<i>Revolving Funds</i>	\$2,244,151	\$2,368,300	\$2,807,431	\$2,402,270	\$2,471,839	\$2,541,409
<i>Grants</i>	\$169,363	\$91,284	\$338,953	\$132,949	\$133,935	\$134,922
<i>Enterprise Funds</i>	\$17,812,456	\$17,429,804	\$19,686,870	\$17,724,064	\$18,051,220	\$18,378,376
<i>Exempt Debt</i>	\$5,721,834	\$6,642,450	\$8,381,309	\$8,555,459	\$8,310,046	\$8,073,649
<b>Sub-Total Other Revenues</b>	<b>\$25,947,804</b>	<b>\$26,531,838</b>	<b>\$31,214,563</b>	<b>\$28,814,741</b>	<b>\$28,967,040</b>	<b>\$29,128,355</b>
<b>TOTAL REVENUE</b>	<b>\$182,370,600</b>	<b>\$188,884,598</b>	<b>\$204,838,024</b>	<b>\$201,474,386</b>	<b>\$209,303,536</b>	<b>\$217,070,475</b>



APPROPRIATION COMMITTEE REPORT TO THE MARCH 2013 ATM

EXPENSE SUMMARY	FY2012 Actual	FY2013 Recap	FY2014 Budgeted	FY2015 Projected	FY2016 Projected	FY2017 Projected
<b>Education</b>						
<i>Lex. Pub Schools Wages</i>	\$60,894,680	\$64,481,249	\$68,649,329	\$72,013,146	\$74,029,514	\$76,102,341
<i>Lex. Pub Schools Expenses</i>	\$6,934,780	\$5,900,555	\$6,716,822	\$6,851,158	\$6,988,182	\$7,127,945
<i>Out-of-District SPED</i>	\$4,442,912	\$6,246,552	\$5,947,812	\$6,494,103	\$6,804,800	\$7,130,611
<b>Sub-Total Lex. Pub. Schools</b>	<b>\$72,272,372</b>	<b>\$76,628,356</b>	<b>\$81,313,963</b>	<b>\$85,358,407</b>	<b>\$87,822,496</b>	<b>\$90,360,897</b>
<i>Minuteman Reg. School</i>	\$1,702,930	\$1,407,979	\$1,474,266	\$1,540,608	\$1,609,935	\$1,682,382
<b>Sub-Total Education</b>	<b>\$73,975,302</b>	<b>\$78,036,335</b>	<b>\$82,788,229</b>	<b>\$86,899,015</b>	<b>\$89,432,431</b>	<b>\$92,043,280</b>
<b>Municipal</b>						
<i>Municipal Wages</i>	\$18,798,530	\$20,110,595	\$20,373,565	\$20,638,421	\$20,906,721	\$21,178,508
<i>Municipal Expenses</i>	\$8,779,459	\$9,794,058	\$10,168,907	\$10,473,974	\$10,788,193	\$11,111,839
<b>Sub-Total Municipal</b>	<b>\$27,577,989</b>	<b>\$29,904,653</b>	<b>\$30,542,472</b>	<b>\$31,112,396</b>	<b>\$31,694,914</b>	<b>\$32,290,347</b>
<b>Shared Expenses</b>						
<i>Benefits &amp; Insurance</i>	\$28,380,746	\$30,052,729	\$29,688,138	\$31,162,359	\$32,715,724	\$34,248,250
<i>Debt (within-levy)</i>	\$4,849,052	\$5,669,343	\$5,534,823	\$5,811,564	\$6,102,142	\$6,407,249
<i>Reserve Fund</i>	\$-	\$900,000	\$900,000	\$900,000	\$900,000	\$900,000
<i>Facilities</i>	\$9,242,458	\$9,431,662	\$9,760,460	\$10,080,350	\$10,311,079	\$10,547,634
<b>Sub-Total Shared Expenses</b>	<b>\$42,472,256</b>	<b>\$46,053,734</b>	<b>\$45,883,421</b>	<b>\$47,954,273</b>	<b>\$50,028,946</b>	<b>\$52,103,133</b>
<b>Capital &amp; Reserves</b>						
<i>Cash Capital</i>	\$2,627,174	\$4,152,794	\$7,853,842 <sup>9</sup>	\$3,437,143	\$3,456,821	\$3,276,992
<i>Stabilization Fund</i>	\$-	\$-	\$-	\$-	\$-	\$-
<i>Debt Svc. Stab. Fund</i>	\$-	\$1,600,000	\$2,184,000	\$600,000	\$600,000	\$600,000
<i>PEIL Fund (OPEB)</i>	\$500,000	\$500,000	\$775,000	\$813,750	\$854,438	\$897,159
<i>Other</i>	\$226,885	\$336,250	\$3,596,497	\$545,000	\$545,000	\$545,000
<b>Sub-Total Cap. &amp; Res.</b>	<b>\$3,354,059</b>	<b>\$6,589,044</b>	<b>\$14,409,339</b>	<b>\$5,395,893</b>	<b>\$5,456,259</b>	<b>\$5,319,151</b>
<b>Total Op., Cap. &amp; Res.</b>	<b>\$147,379,606</b>	<b>\$160,583,766</b>	<b>\$173,623,461</b>	<b>\$171,361,576</b>	<b>\$176,612,550</b>	<b>\$181,755,912</b>
<b>Revolving Funds</b>	<b>\$2,244,151</b>	<b>\$2,368,300</b>	<b>\$2,807,431</b>	<b>\$2,402,270</b>	<b>\$2,471,839</b>	<b>\$2,541,409</b>
<b>Grants</b>	<b>\$169,363</b>	<b>\$91,284</b>	<b>\$338,953</b>	<b>\$132,949</b>	<b>\$133,935</b>	<b>\$134,922</b>
<b>Enterprise Funds</b>						
<i>Water</i>	\$7,274,193	\$7,489,719	\$7,888,530	\$7,462,430	\$7,666,263	\$7,870,096
<i>Wastewater (Sewer)</i>	\$8,257,930	\$8,598,632	\$8,800,750	\$8,680,404	\$8,972,344	\$9,264,283
<i>Recreation</i>	\$1,670,333	\$1,270,453	\$1,785,840	\$1,181,230	\$1,012,613	\$843,997
<i>Enterprise Capital</i>	\$610,000	\$71,000	\$1,211,750	\$400,000	\$400,000	\$400,000
<b>Sub-Total Enterprise Funds</b>	<b>\$17,812,456</b>	<b>\$17,429,804</b>	<b>\$19,686,870</b>	<b>\$17,724,064</b>	<b>\$18,051,220</b>	<b>\$18,378,376</b>
<b>Exempt Debt</b>	<b>\$5,721,834</b>	<b>\$6,642,450</b>	<b>\$8,381,309</b>	<b>\$8,555,459</b>	<b>\$8,310,046</b>	<b>\$8,073,649</b>
<b>TOTAL EXPENSES</b>	<b>\$173,327,410</b>	<b>\$187,115,604</b>	<b>\$204,838,024</b>	<b>\$200,176,317</b>	<b>\$205,579,590</b>	<b>\$210,884,266</b>
<b>Balance (w/out COLA)</b>	<b>\$9,043,190</b>	<b>\$1,768,994</b>	<b>\$0</b>	<b>\$1,298,068</b>	<b>\$3,723,946</b>	<b>\$6,186,209</b>

COLA Projection	FY2015	FY2016
1% COLA for schools*	\$18,000	\$720,000
1% COLA for municipal	\$205,000	\$207,000
1% COLA for public facilities*	\$-	\$50,000
<b>Total 1% COLA Increment</b>	<b>\$223,000</b>	<b>\$977,000</b>

\* takes into consideration contracts already settled for FY2015

COLA	Balance (Deficit) with various COLA rates*		
1%	\$1,075,068	\$3,500,946	\$5,737,979
2%	\$852,068	\$3,277,946	\$5,285,289
3%	\$629,068	\$3,054,946	\$4,828,139

<sup>9</sup> Includes \$2,434,640 allocated to the purchase of the property at 33 Marrett Road.

## Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since the state legislature enacted legislation authorizing such funds, G.L. c. 44, § 53F ½, in the late 1980's. An enterprise fund “establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities” and are accounted for on an accrual basis. *DOR Enterprise Funds Manual (April 2008)*. An enterprise fund provides management and taxpayers with information to: measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis or subsidized by the General Fund.

The Water and Wastewater Enterprise Funds operate on a completely stand-alone basis. These funds do not rely on any tax-levy revenues, but cover their complete operating and capital needs with user charges and fees. The Recreation Enterprise Fund is only partially stand-alone. It covers its operating costs with user charges and fees and contributes to the debt service on certain recreation capital projects (in particular, the Lincoln Field restoration project). Most recreation capital costs, however, are subsidized by the General Fund through a combination of within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

### **Establishing the Enterprise Fund Budgets**

At the Annual Town Meeting each year, Town Meeting appropriates a budget for each of the three enterprise funds for the upcoming fiscal year. Later in the year (in the early fall in the case of the Water and Wastewater Enterprise Funds), user charges are set that are designed, based on projections of usage for the fiscal year, to be sufficient to cover the appropriations made by Town Meeting to run the enterprises.

Depending on the accuracy of the usage projections, the actual revenue realized by the enterprise during the year may exceed or fall short of the appropriated amount. Any operating surplus must be retained in reserve in the enterprise fund. The funds accumulated in that reserve (referred to as “retained earnings”) may be applied only to meet the capital needs of the enterprise or to reduce user charges. Any operating loss (after applying any accumulated reserves in the fund), must be made up in the succeeding fiscal year's appropriation.

Since FY2007, the Annual Town Meeting Warrant has contained a separate Article for the appropriation of the enterprise fund operating budgets (previously, appropriations for the enterprise funds were commingled with those for the General Fund). This presentation makes it easier to understand the operating budgets of the enterprise funds. However, it should be noted that certain indirect costs that are charged by the General Fund to the enterprise funds (see discussion below) are still appropriated as part of the municipal operating budget, this year in Article 4. For the complete operating costs of the enterprise funds, including indirect costs, see the Brown Book sections on Water, Wastewater, Recreation.

To present a more meaningful picture of the complete enterprise fund operating budgets, the tables included in the write-up of this article have been expanded from those presented in the Warrant to show the indirect as well as the direct costs of the funds. Debt service costs for previously approved capital expenditures are shown in the enterprise fund operating budgets. However, it should be noted that appropriations for capital needs of the enterprises, whether funded by cash or borrowing, are addressed in separate capital Warrant articles.

## Appendix C: Revolving Funds

Ordinarily, revenue received by any municipal department must be deposited in the General Fund, and cannot be expended for any purpose without further appropriation by Town Meeting. A revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges, on an ongoing basis and without the need for further appropriation, to pay expenses for rendering the services for which those fees and charges are collected.

Revolving funds managed by municipal departments are generally governed by G.L. c. 44, § 53E1/2. (There are also a number of revolving funds managed by the School Department, such as the School Lunch Fund, which are governed by other statutes and are not within the control of Town Meeting.) Under Section 53E1/2, a municipal revolving fund can be established only by vote of Town Meeting.

That authorization must be renewed prior to each succeeding fiscal year. The authorization must specify:

- the purpose(s) for which monies deposited in the fund may be used
- the source(s) of funds to be deposited
- the board, department or officer authorized to expend monies from the fund
- a limit on the total amount that may be expended from the fund in the ensuing fiscal year

Expenditures may not be made, nor liabilities incurred, in excess of the balance of the fund. If a revolving fund is reauthorized, any balance in the fund may be carried over to the next fiscal year. If a revolving fund is not reauthorized, or if the purposes for which the money in the fund may be spent are changed, the balance in the fund reverts to the General Fund at the end of the fiscal year unless Town Meeting votes to transfer the funds to another duly established revolving fund.

## Appendix D: Senior Tax Relief

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to senior citizens and other needy residents could be enhanced and made more accessible. Since then, Town Meeting has taken a succession of steps to expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing state law and, in some cases, increasing opportunities for tax relief beyond those that would ordinarily be available under state law.

The principal programs for property tax relief now available to Lexington homeowners are:

- a *tax exemption* program, under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct \$1,000 from their annual property tax, G.L. c. 59, § 5, cl. 41C (“the 41C Program”);
- a Community Preservation Act *surcharge exemption* program, under which low-to-moderate income homeowners age 60 or over, and low-income homeowners under age 60, may obtain a 100% exemption from the CPA surcharge on their property tax;
- a locally-controlled *Senior Service* program, adopted by Town Meeting in 2006 to replace the preexisting state program, under which low-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to a maximum credit of \$935 or a maximum credit of \$1,190 for a two-person household;
- a tax *deferral* program, under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town’s cost of funds (.26% for FY2012 deferrals and .18% for FY2013 deferrals), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A (“the 41A Program”); and
- an income tax “*Circuit Breaker*” program under which low- and moderate-income homeowners age 65 and over whose homes have an assessed valuation not greater than a specified ceiling (\$705,000 for tax year 2012), or renters, may obtain a tax credit on their state tax returns (up to \$1,000 for tax year 2012) for the amount that their property tax, plus half their annual water and sewer bill, or their rent, exceeds 10% of their annual income, G.L. c. 62, § 6(k).

### **Funding of the Programs**

Each of these programs is funded in a slightly different way. Under the 41C Program, the Town receives reimbursement from the state for exemptions allowed up to an annual statutory cap (\$29,500), subject to appropriation; exemptions beyond this amount are funded from the Town’s overlay account and reduce the amount that may be spent for other purpose under the Proposition 2½ limits. Exemptions granted from the CPA’s 3% surcharge lower the amount of CPA revenue that the Town would otherwise receive by the amount of the exemptions. The Senior Service program, formerly funded from the overlay, is now funded as part of the Town’s annual budget, subject to appropriation. The 41A deferral program does not affect the amount of revenue that the Town may appropriate under Proposition 2½, and it is essentially revenue-neutral over an extended period of time, though there may be short-term cash flow implications if deferrals are taken out faster than they are repaid. The Circuit Breaker program is funded entirely by the state.

### **The 41A Deferral Program**

The 41A deferral program, although it has not been widely used, is an important tool in the tax-relief toolbox because it offers immediate and substantial property tax relief to cash-strapped seniors. Those who qualify may defer any part or all of their property tax for a given year, until the property is ultimately disposed of, up to a cumulative total of half the assessed valuation of their house, at an interest rate that is now quite reasonable. The interest rate, formerly pegged at 8%, is now based on a floating Treasury rate equivalent to Lexington’s cost of funds in the year of deferral, but not to exceed 8%, which remains in

effect for the life of each year's deferral. The interest rate for FY2012 deferrals was 0.26%, and for FY2013 deferrals will be just .18%.

At the same time, the 41A deferral program is an attractive form of tax relief from the Town's point of view because it is essentially revenue-neutral. The total amount of deferred taxes now carried by the Town as accounts receivable is approximately \$700,000. While the unlikely event of a significant increase in the number of participants in any particular year could potentially create a short-term cash flow problem, the Town is in effect making well-secured loans. The Town should eventually be repaid all the funds that are deferred with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

### **The 41C Exemption Program**

For many years, the Town has made available to qualifying seniors an exemption from the property tax under Clause 41 of G.L. c. 59, §5, and its successor, Clause 41C. Prior to 2004, the amount of the credit was limited to \$500 per year and eligibility criteria were quite restrictive. Since then, the Town has taken a number of steps to expand both eligibility and the credit amount.

Taking advantage of new local options made available by the legislature in 2002, Town Meeting voted in 2004 to: (a) increase the amount of the credit to \$750; (b) lower the age of eligibility from 70 to the minimum of 65; (c) increase the income threshold from \$13,000(single)/\$15,000(married couple) to the maximum of \$20,000/ \$30,000; and (d) increase the threshold for assets, not including the home, from \$28,000/\$30,000 to the maximum of \$40,000/\$55,000. In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the Department of Revenue. For FY2013, the income limits are \$24,735/\$37,106 and the asset limits are \$49,472/\$68,025. In 2006, Town Meeting voted to increase the exemption to the maximum allowable amount of \$1,000.

### **The Senior Service Program**

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by as much as \$500 in exchange for community service.<sup>10</sup> Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set their rules and procedures for implementation but limits participation to persons age 60 or over and also limits the hourly credit to the state's minimum wage, currently \$8 per hour.

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under c. 59, § 5K of the General Laws and to replace it with a locally controlled program. This gave the Town the flexibility to: allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program; pay a wage in excess of the minimum wage; allow a higher amount to be credited against a participant's property tax bill.

The most recent set of guidelines, which became effective in FY2012, are as follows: Income eligibility is \$50,000 for single taxpayers or \$52,950 for a couple; hourly rate is \$8.50; maximum credit is \$935 (110 hours) for one participant or up to \$1,190 (140 hours) for a couple living in the same household. Although the Board of Selectmen has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so.

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<sup>10</sup> In 2002, the maximum amount of the Section 5K credit was increased to \$750. In 2009 it was increased to \$1,000, and the 2010 Municipal Relief Act added a provision allowing towns to adopt a local option to set the limit at 125 hours of service at the prevailing minimum wage (now \$8.00 per hour), which would automatically increase the limit if the minimum wage increases.

## Appendix E: Specified Stabilization Funds

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation into or out of the funds, must be approved by a two-thirds vote of Town Meeting at an Annual or Special Town Meeting. To supplement its general Stabilization Fund Lexington has created several specified stabilization funds, which are described below.

At the 2007 Annual Town Meeting, four specified stabilization funds were established to replace certain pre-existing special revenue accounts. Monies in the special revenue accounts, funded by negotiated payments from developers, had previously been spent without specific appropriation. In order to comply with Massachusetts Department of Revenue guidelines, and to make the existence and use of the funds more transparent, monies in the special revenue accounts were transferred to the following specified stabilization funds, where they are now subject to review and appropriation by Town Meeting:

*Transportation Demand Management/Public Transportation (TDM/PT) S.F.:* Contains payments negotiated with developers to support the operations of Lexpress.

*Traffic Mitigation (TM) S.F.:* Contains payments negotiated with developers to support traffic mitigation projects, such as improvements to signals and pedestrian access at intersections, including funds previously contained in the Avalon Bay TDM special revenue account.

*School Bus Transportation S.F.:* Supports daily school bus operations, and was originally funded with \$200,000 contained in the Avalon Bay School Bus Transportation special revenue account.

*Section 135 Zoning By-Law S.F.:* Created to finance public improvements using monies contributed by developers pursuant to Section 135 of the Code of Lexington.

At the 2008 Annual Town Meeting, the *Special Education Stabilization Fund* was created to set aside reserves to help cover unexpected out-of-district special education expenses that exceed budget. A related goal was to enhance transparency around the out-of-district special education budget component by segregating this expense item and bringing budget overruns to Town Meeting for its approval. This fund was created in FY2009 with an initial appropriation of \$350,000 and another \$350,000 was appropriated to the fund at the spring 2009 Annual Town meeting. The current target level for this fund is \$1,000,000.

At the 2009 Annual Town Meeting the *Center Improvement District Stabilization Fund* was created and was funded by a \$100,000 payment received from the developer of Lexington Place in FY2010. The funds may be used for projects such as tree planting, sidewalk improvements to the abutting connector between the parking lot and the sidewalk. None of these funds have been appropriated yet.

At the 2011 Annual Town Meeting two more funds were created:

*Avalon Bay School Enrollment Mitigation Fund:* funded with a \$418,900 payment received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of \$750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) exceeded 111. The amount payable per student in excess of 111 is \$7,100. This fund is expected to be depleted in FY2014.

*Transportation Management Overlay District Fund (TMOD):* funded by payments from those developers who choose to pay a transportation mitigation fee rather than taking responsibility for improving all the intersections in the area to a certain level as provided in Section 135-43.C of the Zoning Bylaw. Per Section 135-43.C(5)(c) “any transportation mitigation fees paid to the Town are intended to be used to fund infrastructure improvements that are necessitated by the proposed development of the applicant.”

At the 2012 Special Town Meeting, the *Debt Service/Capital Projects/Building Renewal S.F.* was created to set aside funds for future capital projects, including but not limited to building renewal projects, and/or to mitigate the impact on taxpayers of debt service, both excluded and non-excluded, related to capital projects.

Current Town policy has a goal of keeping debt service at approximately 5% of total revenue. When the Town must issue a particularly large bond, such as was needed for the new Estabrook School construction combined with the Bridge and Bowman school renovations, the Town's debt service rises sharply. This rise is typically followed by a period of lower growth in debt service while the Town pays down its existing debt, and limits additional borrowing, until debt service converges back on the goal of 5% of total revenue.

Rather than adding the higher debt service directly into the tax levy, this fund allows the Town to smooth the impact of sudden increases in debt service on property tax bills. Town Meeting can set aside funds in periods when the Town has a surplus, and in later years these funds can be appropriated to directly reduce annual debt service, which in turn reduces the amount that must be raised in the tax levy.

## Appendix F: Other Post Employment Benefits

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. These and other retirement benefits that are distinct from the pension benefits earned by many retirees are often called “other post-employment benefits” or OPEB for short. Health care benefits are by far the largest component of OPEB.

Much of the cost of retiree health insurance is borne by Medicare, but the Town must contribute to supplementary coverage and coverage for retired employees not on Medicare. Since the Town is obligated to provide this benefit on an ongoing basis, the cost that will be incurred over the lifetimes of the current and future retirees represents a liability. The actuarial value of this liability must be included in the Town’s financial statements and is in the hundreds of millions of dollars. In FY2014 the Town will pay approximately \$5,900,000 for current year retiree health benefits costs. At the same time that these payments are retiring part of the current liability, employees are earning rights to receive retirement benefits in the future. The general escalation of health care costs makes it almost certain that the net effect is an increase in the actuarial value of the liability.

It should be noted that any estimate of the present value of the liability involves a large number of assumptions and projections about future health care costs, retiree longevity, number of retirees, Town/retiree cost sharing arrangements, and returns on investments. Many of these factors are relatively uncertain. Every other year the Town engages a firm to make actuarial estimates of the liability for use in the Town’s financial statements. The Government Accounting Standards Board (GASB) has promulgated rules for the computation of these estimates which may or may not be reasonable in certain important respects, and the actuaries making the estimates adopt assumptions which may or may not be reasonable. The rules and assumptions in regard to the so-called discount rate and the time-profile of the amortization of the liability are of particular importance. The assumptions used in the previous estimates may have led to considerably large inaccuracies in the present value of the liability in those reports. One should be careful when using the Town’s actuarial estimates in discussions of funding policy.

While the Town has a legal obligation to provide health benefits to present retirees, it has no legal obligation to fund any future liability, i.e., to set aside funds for the specific purpose of covering the costs of the future obligations and thereby assuring its ability to satisfy them. Nonetheless, the Town has taken modest steps toward that goal. A Post Employment Insurance Liability (PEIL) Fund was created via a home rule petition to the state legislature (the Act is reproduced at the end of this appendix). The rules governing the management of the PEIL Fund are similar to those governing the Retirement Fund. Since long-term growth and investment income are primary goals, the balance in the Fund may be invested, unlike most other Town monies, in a relatively wide range of investment vehicles including stocks and bonds. The Retirement Board is responsible for the management of the Fund. Appropriations from the PEIL Fund may be made by Town Meeting, but only to pay for health care costs of retirees.

There are at least three lines of argument in favor of funding the liability. First, any monies in the PEIL Fund provide assurance that the Town will be able to satisfy at least some portion of its future liability. Bond rating agencies look favorably upon this, although it is unclear what funding level, if any, is necessary to maintain a AAA bond rating.

Second, the balance in the Fund is invested and earns income. The goal is to grow the Fund until the liability is fully (100%) funded. In the early years of growing the Fund, the balance is modest, investment returns are small on an absolute scale, and the growth of the balance is dominated by the inward appropriations. When the balance becomes large, the growth will tend to be dominated by investment returns. Subsequent to reaching full funding, in each year a portion of the investment income is retained in order to maintain full funding, and the remainder is put towards current health care costs for retirees. Analyses done by the OPEB working group suggest that, in the years after full funding is achieved, 20% to 40% of the Town’s portion of retiree health care costs could be covered by investment income. Thus, full funding



modestly reduces the need for revenue from taxes (in the years after achieving full funding) and therefore serves as a partial hedge against increases in health insurance costs.

Third, the Fund could be used as a reserve, e.g., to fund a large portion of retiree health costs in a particularly challenging fiscal year.

On the other hand, there are considerations that weigh against funding the liability, or at least against an aggressive funding schedule. First, monies invested in the PEIL Fund are unavailable for other uses. Thus, the reservation of resources needed to build the Fund has a negative effect on the current budget. One may legitimately ask whether funding the PEIL should take priority over other liabilities such as the anticipated costs of maintaining or replacing roads and buildings in a timely manner. Choosing the latter might generate significant future savings.

Second, the above paragraph makes it clear that the budgetary benefits of the Fund are not realized until full funding is achieved. Only a small fraction of today's taxpayers will still be paying taxes in Lexington when full funding is achieved.

Third, even if the liability is fully funded some day, the Town would still need to make substantial annual appropriations for retiree health benefits.

In FY2009 and subsequent fiscal years, Town Meeting approved appropriations into the Fund. In FYs 2009, 2010, and 2011 the appropriation involved a portion of free cash that approximated the previous year's reimbursement from the federal government for the prescription drug coverage the Town provides to retirees in lieu of Medicare Part D coverage. These reimbursements are not accounted for in the revenue projections used for budgeting purposes. It has been argued that this effectively reserves the funds for later use in supporting retiree health care expenses. The reimbursements go into the General Fund and become part of the following year's free cash balance. In each of FYs 2012 and 2013, the amount of \$500,000, somewhat greater than the Medicare Part D reimbursements in the previous year, was appropriated into the PEIL Fund.